The planes that fly straight up

(Page 94)

BUSINESS WEEK

A McGRAW-HILL PUBLICATION   FIFTY CENTS   MAY 31, 1958

Ralph Lazarus' Federated Dept. Stores is big retailing. His problem: to take advantage of it — but keep the local touch. (Marketing)

IN BUSINESS THIS WEEK May 31, 1958

GENERAL BUSINESS

THE DEPARTMENTS

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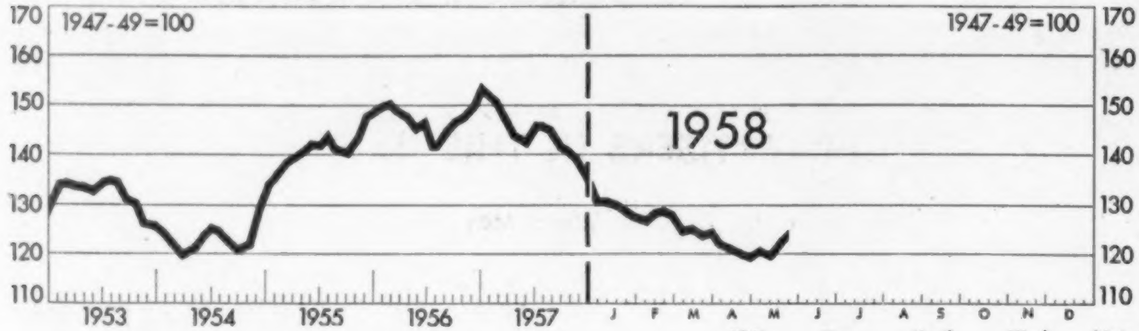
NUMBER 1500

FIGURES OF THE WEEK



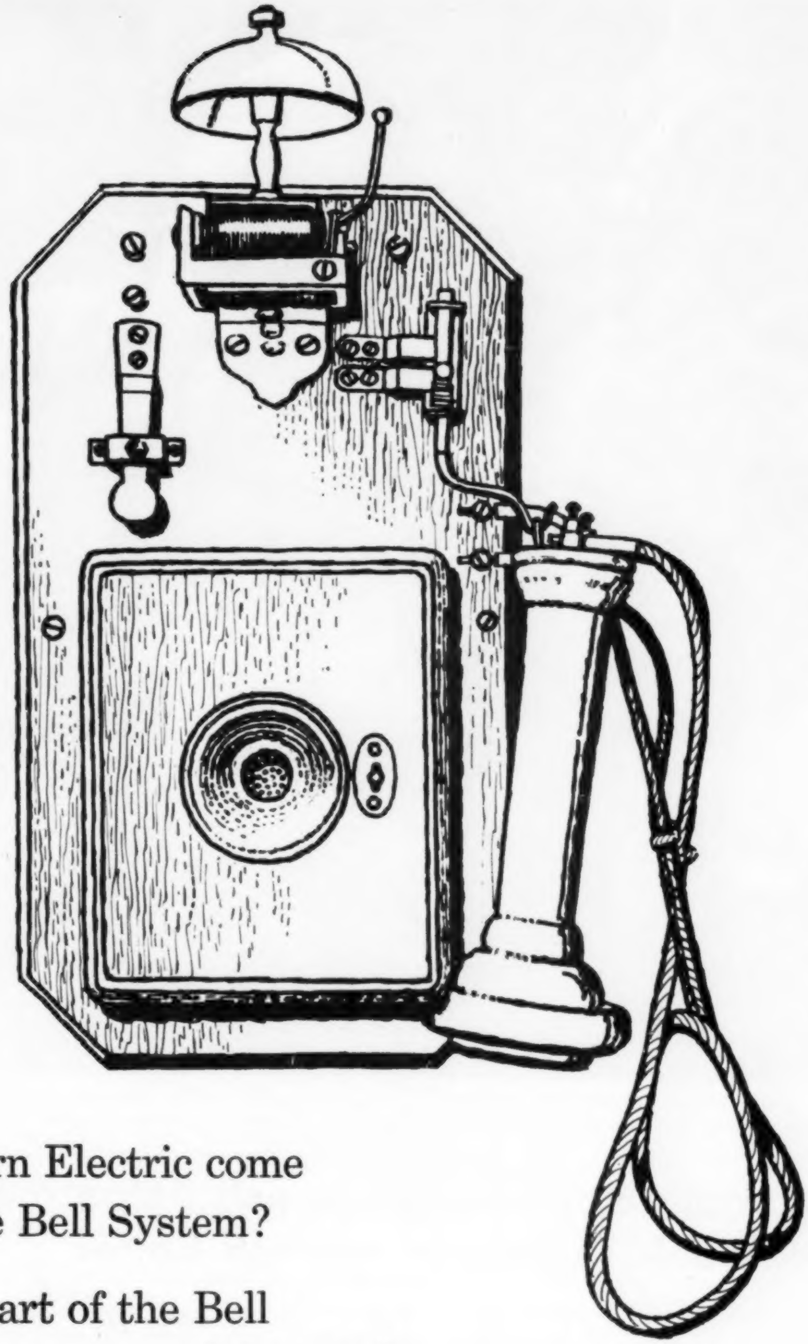
	1946 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
BUSINESS WEEK INDEX (chart)	91.6	143.8	120.0	123.2	***124.9**
PRODUCTION					
Steel ingot (thous. of tons)	1,281	2,252	1,289	1,523	**1,526**
Automobiles and trucks	62,880	158,654	83,823	113,998	**112,101**
Engineering const. awards (Eng. News-Rec. 4-wk daily av. in thous.)	$17,083	$57,529	$61,268	$78,737	**$76,169**
Electric power (millions of kilowatt-hours)	4,238	11,574	11,206	11,257	**11,316**
Crude oil and condensate (daily av., thous. of bbls.)	4,751	7,457	6,288	6,262	**6,256**
Bituminous coal (daily av., thous. of tons)	1,745	1,601	1,180	1,030	**1,196**
Paperboard (tons)	167,269	282,388	236,328	269,356	**259,071**
TRADE					
Carloadings: mfrs., miscellaneous and l.c.l. (daily av., thous. of cars)	82	67	55	56	**57**
Carloadings: all others (daily av., thous. of cars)	53	53	34	34	**37**
Department store sales index (1947-49 = 100, not seasonally adjusted)	90	129	125	138	**127**
Business failures (Dun & Bradstreet, number)	22	309	329	327	**337**
PRICES					
Spot commodities, daily index (Moody's, Dec. 31, 1931 = 100)	311.9	411.6	392.0	401.0	**403.3**
Industrial raw materials, daily index (BLS, 1947-49 = 100)	††73.2	92.5	80.6	80.7	**81.3**
Foodstuffs, daily index (BLS, 1947-49 = 100)	††75.4	81.3	90.3	92.7	**92.9**
Print cloth (spot and nearby, yd.)	17.5¢	17.9¢	17.1¢	17.3¢	**17.3¢**
Finished steel, index (BLS, 1947-49 = 100)	††76.4	174.3	181.6	181.6	**181.6**
Scrap steel composite (Iron Age, ton)	$20.27	$47.50	$31.50	$34.00	**$35.33**
Copper (electrolytic, delivered price, E & MJ, lb.)	14.045¢	31.615¢	24.565¢	24.655¢	**24.270¢**
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.)	$1.97	$2.22	$2.25	$2.27	**$2.34**
Cotton, daily price (middling, 1 in., 14 designated markets, lb.)	**30.56¢	33.93¢	34.60¢	34.80¢	**34.76¢**
Wool tops (Boston, lb.)	$1.51	$2.22	$1.65	$1.62	#
FINANCE					
500 stocks composite, price index (S&P's, 1941-43 = 10)	17.08	46.99	43.23	43.42	**43.83**
Medium grade corporate bond yield (Baa issues, Moody's)	3.05%	4.56%	4.66%	4.62%	**4.61%**
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate)	¾–1%	3⅝%	1¾%	1¾%	**1⅝%**
BANKING (Millions of Dollars)					
Demand deposits adjusted, reporting member banks	††45,820	55,151	56,361	54,706	**54,671**
Total loans and investments, reporting member banks	††71,916	85,626	92,053	91,785	**91,803**
Commercial and agricultural loans, reporting member banks	††9,299	30,906	29,792	29,623	**29,928**
U. S. gov't guaranteed obligations held, reporting member banks	††49,879	25,114	30,107	30,511	**30,856**
Total federal reserve credit outstanding	23,888	25,070	24,854	24,854	**25,016**

MONTHLY FIGURES OF THE WEEK

		1946 Average	Year Ago	Month Ago	Latest Month
McGraw-Hill Indexes of New Orders (1950 = 100)					
New orders for machinery, except electrical (seasonally adjusted)	**April**	N.A.	142	120	**132**
Construction & mining machinery	**April**	N.A.	166	153	**160**
Engines & turbines	**April**	N.A.	129	123	**121**
Pumps & compressors	**April**	N.A.	175	189	**150**
Metalworking machinery	**April**	N.A.	160	93	**78**
Other industrial machinery	**April**	N.A.	132	127	**136**
Office Equipment	**April**	N.A.	175	170	**171**
New contracts for industrial building	**April**	N.A.	122	89	**79**

** Preliminary, week ended May 24, 1958.*
† Revised.
†† Estimate.
*** Ten designated markets, middling 15/16 in.*
§ Date for 'Latest Week' on each series on request.
 # Insufficient trading to establish a price.
N.A.—not available at press time.

THE PICTURES—Cover—Grant Compton; 16—U.P.I.; 18, 19—Grant Compton; 20—Mike Shea; 23—(top first, second, & third, & bot. second) Committee for Economic Development, (top rt.) Dick Wolters, (bot. lt.) Joern Gerdts, (bot. third) U.P.I., (bot. rt.) Herb Kratovil; 36—Ed Nano; 56—Grant Compton; 57—(rt.) Federated Department Stores, Inc.; 77—U.P.I.; 94—(top) Vertol Aircraft Corp., (cen.) Ryan Aeronautical Co., (bot.) Doak Aircraft Co.; 95—(top lt.) Bell Aircraft Corp., (top rt.) Ryan Aeronautical Co., (bot. lt.) Collins Aeronautical Research Laboratory, (bot. rt.) Piasecki Aircraft Corp.



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READERS REPORT

Inventory Price Supports

Dear Sir:

As an anti-recession plan I would like to propose the following plan: If the federal government were to guarantee business inventories similar to the way farm price supports are handled, so that all manufacturers and retailers would be protected against a sudden or deep price cut I feel that producers would be more liable to manufacture goods and store buyers would be more liable to increase stock on hand. With more jobs furnished by the increase in production the corresponding increase in purchasing power would keep merchandise moving off the shelves. If prices were to drop then inventories would be "protected" so that the low would not surpass a certain percentage of the original cost and the subsidizing agency (either federal or state) would make up the difference.

While I have always believed in a "free competitive" economy for our business world and realize that there are many disadvantages to the above I feel that the idea is worthy of consideration.

JACK S. BELSINGER
TERRY MFG. CO.
AKRON, PA.

Solution Offered

Dear Sir:

It is currently popular to speculate on cures for the slackening automobile market. I, too, have a solution to offer.

Maintain an automobile design exactly as introduced for three years. The first year of introduction would carry a price tag of $3,000, for example. Due to keeping a model in production for a long period, better tool amortization, cost reduction programs, lower labor costs, reduction of change-over periods and many other advantages may be had. Consequently, the second year on a given model would be sold at $2,600—and the third year at $2,200. With each company introducing new models in different years, there is ample opportunity to buy a new design in any given year—and even stay within one corporate family.

At the same time, those more economy-minded people who are less concerned with "keeping up with the Jones" can buy a new car which has been proven in over a reasonable period and at a reasonable price.

The present system forces every buyer to pay a heavy premium for development costs, tooling, etc. just to obtain a new car.

D. L. McFARLAND

MANAGER, INDUSTRIAL DESIGN OPERATION
HOUSEWARES & RADIO RECEIVER DIV.
GENERAL ELECTRIC CO.
BRIDGEPORT, CONN.

Behind the Figures

Dear Sir:

The inclusion of Hoover Ball and Bearing Co. comparative net income figures for three months ended January 31 in a tabulation heading your article The Prospects Are Poor [BW—Apr.12'58,p107], may have given an erroneous impression of our actual prospects. A bare tabulation of figures without an analysis of what is included in them can easily do this.

In our business . . . normal year to year variations do not occur the same time each year. Consequently, three months results do not always provide proper comparisons. In addition, unusual or non-recurring charges and credits falling within the periods will give results quite different from those shown by actual operations. This was the case in both of the comparative three months figures of ours shown in your tabulation.

For the six months ended January 31, 1958, a more representative period, we reported a net of $922,540 or $1.83 a share as against $772,696 or $1.54 a share a year earlier. Our figures for the six months ended January 31, 1958, included a capital gain of some $400,000 from the sale of a plant, part of which was taken in each quarterly period. However, in the second quarter of the period we set up a reserve of $425,000 for moving expenses and starting-up costs of our new ball bearing plant.

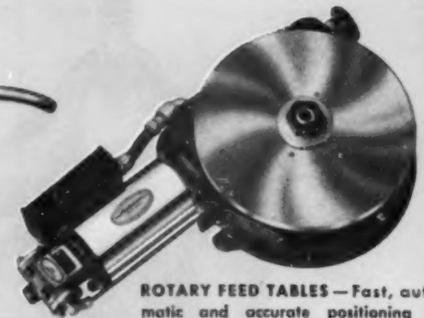
While our earnings from operations for the three months ended January 31, 1958, were down 5% this was after heavy non-recurring expenses related to our moving. Without these unusual charges our normal operating results were highly satisfactory. In spite of these expenses, our operating profit for the six months period was up 12.5%. I point out these facts for clarification as we think our prospects are considerably better than the title of your article suggested.

C. H. SIMMONS

PRESIDENT
HOOVER BALL AND BEARING CO.
ANN ARBOR, MICH.

YOU CAN CUT COSTS 30% OR MORE RIGHT

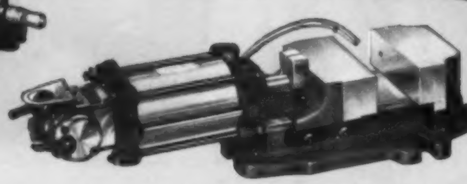
DRILL PRESS FEEDS — Quickly attached to any standard drill press, these units replace manual control of feed rates with automatic air-hydraulic precision control.



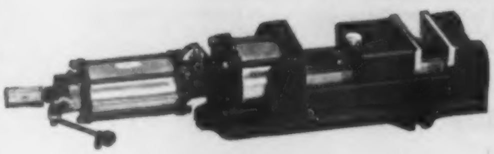
ROTARY FEED TABLES — Fast, automatic and accurate positioning of work pieces for drilling, assembling welding, etc.

SHUTTLE WORK FEEDER — A 2-station linear 6" stroke work feeder . . . load or unload while drilling, tapping, etc. is being done at other station.

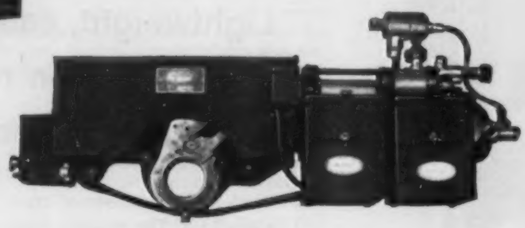
THE BELLOWS AIR MOTOR — The air cylinder with the integral valve and speed controls, for low voltage or 115-volt control circuits.



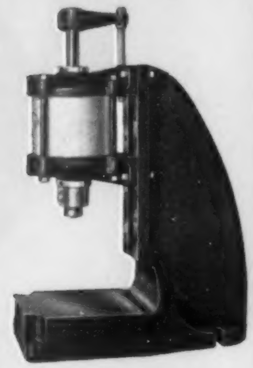
"CONTROLLED-AIR-POWER" VISE — Quick acting air vise for fast tool and fixture work; clamping pressure approximately five times air line pressure.



AIR-HYDRAULIC VISE — A milling machine type vise developing a clamping pressure up to 15,000 lbs. on 100 lbs. operating air line pressure.



HEAVY DUTY POWER FEED—A complete packaged power unit designed primarily to replace manual infeeding in centerless grinding operations.



AIR PRESSES—Provide either a controlled pressure squeeze for pressing operations or a sharp impact for stamping, coining or staking.

BELLOWS-LOCKE DRILLING and TAPPING UNIT— An air-powered hydraulically controlled drill unit for quick incorporation into high production drilling or tapping operations.

These Bellows work units are air-powered but electrically controlled. Directional valving and speed controls are built-in. Only a single air connection is required which can be made with flexible air hose. All units can be interlocked and synchronized with one another for programmed operation. Economical to buy, simple to install, they give immediate cost cutting results to any plant in any industry.

BUSINESS OUTLOOK

BUSINESS WEEK
MAY 31, 1958

A BUSINESS WEEK
SERVICE

This tangled international situation (page 16) may not be helping business, but **business is helping itself.**

Things have definitely perked up a little in the last few weeks.

There's nothing conclusive, of course. But this is just the kind of thing that should be happening if the downturn really is at or near the bottom

Military contracts doubtless have been a major factor in stemming the long slide in manufacturers' new orders.

However, the strongest April-May showing must go to **construction.**

The volume of contract awards for big projects has shown a positive uptrend, not just stabilization. That's novel in today's economy

Steel mills are rekindling furnaces here and there. This shows up in production which has rebounded to 56½% of capacity from unnaturally low levels below 50% a few weeks ago.

Steelmen, nevertheless, expect a very dull summer. Wider-than-usual plant shutdowns for vacations in metalworking are anticipated

Add up the points where improvement can be seen and you'll understand why **Business Week's Index (page 2) suddenly is pointing upward.** It is unlikely that this gain will be sustained, but at least it highlights **a slightly better than seasonal over-all performance for late May.**

—•—

Contract awards for construction to be done in coming months apparently have very nearly made up for losses earlier in the year

As May drew to an end, it looked as if the figures compiled by McGraw-Hill's Engineering News-Record would reach the highest level for any month in almost two years.

Compared with last year, **May ran ahead by nearly one-third.**

Private construction remains several percentage points behind a year ago, as might be expected. However, a 20% higher total of contract awards for **commercial building** offsets about half the drop in **industrial**

Some improvement can be seen even in the field of **housing.**

The gain, so far, is in **rental units.** Engineering News-Record reports awards for "mass housing" up 25% for the year to May 29. Similarly, F W Dodge Corp. notes a 26% gain for apartments in April and of 38% in two-family houses.

Up to the beginning of May, **homes for single family occupancy** still were behind. It could be, though, that this trend also has been reversed; FHA mortgage guarantees at midweek had soared to the legal ceiling

—•—

Production of electric power seems to have stabilized at just below the level of a year ago, though this may be nothing to shout about

And volume of **railway freight traffic** has leveled off, too This definitely is scant cause for joy, for the number of cars loaded is **far below that for any recent year.**

BUSINESS OUTLOOK (Continued)

BUSINESS WEEK

MAY 31, 1958

Improvement in the prices of both **copper and steel scrap** can reasonably be included among favorable developments. However, these changes should not be overstressed; even a little buying here was calculated to boost prices from their recent distress levels.

—•—

Prices generally go on pursuing their confusing trends, but here's one thing that needs more emphasis than it's getting:

The "inflation amid recession" is entirely in the **food** field.

Industrial raw materials have slumped. Even more to the point, the average for **manufactured goods** has just fallen below a year ago.

Critics of manufacturers' prices have been concentrating on the Consumer Price Index, commonly called the **cost of living.** Its series of new highs in recent months mainly reflects **rising food costs.**

But manufactured goods at wholesale stopped rising last January.

The decline since then has been small (for this is a slow-moving index, and it probably doesn't catch a great many sales of industrial goods that are made below posted prices)

Yet the index now stands at 125.2 against 125.3 a year ago. This interrupts an 11 point rise from January, 1955, to January, 1958.

Processed foods present a sharp contrast to the average prices of industrial goods in the wholesale markets (and, for the last two months, foods have been rising while farm products gradually gave ground).

The wholesale food index last week **hit a new high at 113.**

That's up nearly 5 points so far this year, and it's up 8 points since the rise got under way last October. Processed meats have played a big part, rising more than 25% to a six-year high in a six-month span.

Weather has smiled on crops so far this year, and **meat marketings** in the last half will be larger than in 1957. **Thus farm income stands to hold up pretty well.**

But the large output will **pull prices down** from recent levels. In fact, freer movement of vegetables already has sliced about 3% off the wholesale index of farm prices from the late-March peak.

—•—

Don't place too much weight on apparent improvement in the figures on the number of workers drawing **unemployment compensation.**

The total is still double what it was a year ago. And, though it is down a quarter-million in a month, most of that drop represents **workers exhausting the benefits** for which they are eligible.

—•—

Here's a measure of the way **business needs for new money have fallen off,** both to carry inventory and to modernize and expand:

• Manufacturing companies went to market with only $576-million of **new securities** in the first quarter, less than half the 1957 figure.

• And so far this year they have reduced **bank borrowings** nearly $700-million; last year, they were adding $400-million to their loans.

The Impala Sport Coupe—every window of every Chevrolet is Safety Plate Glass.

EXCITEMENT RIDES WITH YOU *every mile you roll in your new* **CHEVROLET.** *At rest or on the road, this sleek style-setter promises you more go, gaiety and glamor—and you'll find it keeps its promises beautifully. Come aboard and take the key to the happiest traveling on the highway!*

One look at those saucy lines and you know this new Chevy's ready to shove off for wherever you say.

Just name your course—a bustling highway, a tumbling mountain road or a side street to the corner grocery. Here's a car with an eager gait that turns any route into a pleasure cruise.

You'll see what we mean the first time you feel the quick-sprinting torque of Chevrolet's new Turbo-Thrust V8* whisk you up a steep hill. Or learn how this engine loves to shrink the miles out where they're long and lonesome. And you'll find still more to be proud of in the way Chevy takes the wrinkles out of aging roads. There are two new rides to choose from—Full Coil suspension as standard or a real air ride*—each engineered to achieve a gentleness you'd expect on only the costliest cars.

The plain truth is that you're missing one of the most rewarding experiences on the road if you haven't yet taken the wheel of this new Chevrolet. It's an oversight your dealer will gladly remedy. . . . Chevrolet Division of General Motors, Detroit 2, Michigan. **Optional at extra cost.*

CHEVROLET

BUSINESS WEEK

MAY 31, 1958

NUMBER 1500

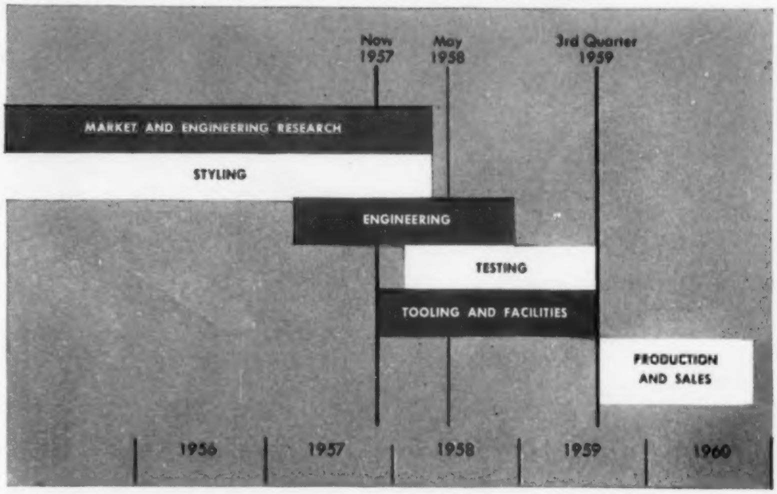
'Small' Cars Coming By 1960

● Detroit has just about committed itself to "small" cars late next year.

● They won't be so small as Volkswagens, cost much less than Fords and Chevies.

● But they'll offer buyers a choice of something mechanically different.

Standard Lead Time For a New 1960 Model



If the auto industry sticks to the timetable that's laid out in the chart at right, a new kind of smaller, lighter, more economical—but not cheaper—U.S. automobile will appear in the showrooms. But it can't appear until late next year.

The chart shows the stages of development of a 1960 model, and the evidence around Detroit shows that Ford and General Motors small cars, at least, are pretty close to this timing.

Chevrolet's small car (BW—May24 '58,p36), for example, has been running for some time on GM's proving ground. According to a chart on lead time shown by Pres. Henry Ford II at Ford Motor Co.'s annual meeting last week, marketing and engineering research on a 1960 car would have had to be completed early this year. Early this year, Ford's engineering staff released a prototype small car for testing and product engineering.

• **Detroit's Decision**—The tentative go-ahead by Ford and GM, with Chrysler still hesitating, doesn't mean that the U.S. will have its own People's Car. "Small," to Detroit, still means something sized and styled more like the Ford, Plymouth, and Chevy than like the Volkswagen or Renault. But, mechanically, the cars will be entirely different from their Detroit contemporaries.

With the long lead time required to bring out a new car, Detroit is moving at its ponderous fastest to put in effect a new marketing theory that seeks to reconcile two conflicting forces:

• Obviously, Americans in increasing numbers like the European cars well enough to buy them. In 1956, when Detroit would have had to start work toward a 1959 small car of its own, only 98,000 cars were imported; in 1957, imported car sales reached 206,000, and 300,000 sales are predicted this year.

• Equally obviously, Americans don't buy the cheapest models of U.S. cars—the ones priced closest to the most popular foreign cars. According to GM Pres. Harlow Curtice, only 10% of Chevrolet buyers in the first half of the 1958 model year picked the cheapest 6-cyl. car; nearly 44% picked the highest-priced 8-cyl. models, with base price $400 higher, plus hundreds of dollars' worth of extras.

The new idea in Detroit is this: Offer an entirely new family of cars, not necessarily cheaper than the present lowest-priced models, but make it enough different in mechanism and styling so that a buyer doesn't feel as if he has downgraded himself.

"It won't be the cheapest Chevrolet, Ford, or Plymouth," a Detroit executive points out. "It will be a car all its own."

• **New Family**—Detroit has yielded to the necessity of meeting foreign-car competition when domestic cars are selling poorly, but it hasn't surrendered its thesis that Americans insist on performance, comfort, and utility standards beyond those of the European small cars. Auto men are aware that the "low-priced Three" have moved up the scale in size, luxury, price, thus abandoning the market area in which they grew. This market is now served by American Motors Corp.'s Rambler American and by the imports.

However, Detroit spokesmen contend that the smallest cars aren't the whole answer. Even now, there's an upgrading in the imported car field, with larger cars making up a substantial share of the 1958 imports.

Detroit's new "small cars" will weigh around 2,500 lb., with engines of about 100 hp. to provide respectable acceleration. They will have a form of automatic transmission—not the complex and expensive type in present cars but probably something like the "two-pedal control" semi-automatic systems that are common abroad.

Engines will be in the rear, leaving room forward for generous passenger space and for storage in the nose. The junior-sized Chevy will have an air-cooled, horizontally opposed 6-cyl. engine, with the transmission also in the rear. Engine and transmission will be largely made of aluminum.

Ford reportedly plans on an air-cooled 6-cyl. engine, possibly mounted up front, with a front-wheel drive. Chrysler's plans are vaguer, but one story says the company is tooling up a 4-cyl. engine.

• **Flat and Low**—With either Chevy's rear engine and transmission or Ford's front engine and transmission, the in-

terior floor of the car can be flat (no driveshaft to hump it), and designers can lower the over-all height. Detroit planners insist the U.S. public demands the long, low look.

Both cars will also have unitized bodies (integrated with the frame instead of being set on top of it), and this also helps designers to get the roof lower.

• **Regulars Get King-Size**—Whether or not Ford, GM, and perhaps Chrysler unveil their "small" cars a year or so from now, the standard name-bearers will continue to get bigger. The models that come out next October will be longer and probably more powerful than the 1958s.

Initial plans for the Chevrolet, for example, called for a car as big as a current Buick and only a few inches shorter than the Cadillac. The standard cars for 1960, to be put on the market at about the same time as the new smaller cars, are expected to stay at about the 1959 dimensions.

What Faces de Gaulle

At midweek, France and the world at large were betting on a French government headed by Gen. Charles de Gaulle. But there was an even larger question as to what the general would do, once in office.

For most Frenchmen, as for foreigners, the 67-year-old general remains a major postwar enigma. Living out of the main stream of French political life since the war, de Gaulle has had few close associates.

He clearly believes in the greatness of France. But even when involved in politics at the end of World War II, de Gaulle never translated his fervent nationalism into detailed policies. Yet, to govern France now, he would have to do so—and take into account the wide range of political positions in the National Assembly.

• **Cramping His Style**—If de Gaulle does come to power, he will face the same problems that have plagued the Fourth Republic since the war's end. And the mere existence of a stronger executive at the helm won't make the solutions easier. There still will be limits, at home and abroad, to de Gaulle's freedom of action.

Moreover, in trying to solve France's basic problems, the new regime might simply create new ones. For instance, trying to meet France's economic troubles, de Gaulle might break up the Common Market. And in reaching for a solution to Algeria, he might strain France's ties with its NATO allies, especially the U.S., and be forced into a go-it-alone policy.

• **North Africa**—In Algiers, where previous governments failed in a settlement, de Gaulle might succeed. Undoubtedly, he will be ready to give the army more men and equipment—enough perhaps to convince the rebel National Liberation Front (F.L.N.) that it faces a long, bitter war. He might also be able to convince many Moslem moderates that it is now safe to side with France.

At the same time, de Gaulle reportedly favors at least as liberal a settlement on Algeria as any previous French government has tried. Apparently he would accept a federation of Algeria, Tunisia, and Morocco—as long as it stays within the French Union. He might also be ready to promise gradual self-government in Algeria.

• **NATO Stand**—In de Gaulle's mind, Algeria cannot be separated from France's position in NATO. He apparently feels that, in return for French allegiance to NATO, he deserves U.S. support in North Africa, regardless of the difficulties this creates for Washington with the Arabs in the Middle East. This feeling is almost universal in the French army and among many French businessmen.

In handling relations with NATO, de Gaulle probably would aim to have France play a role at least as important as Britain's. France's possession of nuclear weapons—which is possible this year—would reinforce this claim.

De Gaulle would also have his own ideas for dealing with Moscow. He seems to feel that France under his leadership could do a more skillful job than Washington in preparing the way for an East-West accommodation—though it's unlikely de Gaulle would visit Moscow before discussing Soviet problems with Washington.

• **No Revolution**—Despite the expectation that de Gaulle would use a different approach both to NATO and to Moscow, you find many old hands in the French civil service who are confident that the general does not intend to wrench NATO apart. These officials are convinced that, whatever his methods, he sees basic French interests the same way as previous postwar governments.

Even in the case of the six-nation Common Market, these civil servants do not expect a reversal of French policy. They argue that French industrialists—many of whom are backing de Gaulle—are sold on its benefits. Both officials and businessmen are likely to press this argument on the general:

Through the Common Market, a Franco-German partnership could easily dominate economic life in Western Europe. But if France withdraws, Britain and Germany are sure to get together to run things.

• **Economics**—Even if de Gaulle accepts such an argument, he may have difficulty convincing everyone, especially Germans, that France is still a good bet as an economic partner. Even before the present political crisis, France was running rapidly into the red with foreign payments, largely the result of lagging exports.

De Gaulle might be able to tighten French economic controls, to get businessmen to slow down investment voluntarily. But he would also need to get French unions to accept a wage freeze. And he won't have an easy time handling French trade unions.

He has already antagonized even the non-Communist unions by the way he is grabbing for power with army backing. These unions also fear he might replace the present 40-hour week with a 48-hour week—at present wages.

Now, White Collars Get Frayed

● Earlier payroll cuts hit the production workers, but the salaried office people are feeling the pinch now.

● Some companies consider it best to cut salaries, others cut down the office force, some shorten the work week —and reduce salaries proportionately.

● The actual saving in dollars and cents is often dubious, but executives think economy is good psychology.

For the white-collar group—from presidents to file clerks—which so far had seemed relatively unscathed in the current recession, an old bugaboo is cropping up; layoffs, salary cuts, and short work weeks that have the effect of salary cuts.

For the first six months of the slowdown, "office people" felt comparatively little of the impact. Employers hesitated to chop in this area for several reasons: Many felt normal attrition would take care of necessary reductions; others felt that white-collar cuts were even more disruptive of plant and community morale than production-line layoffs, and if the upturn should come soon, skilled clerks and management people would be hard to replace. And cutting salaries was often considered impossible at a time when wages of unionized employees stayed constant or, under some contracts, were about to go up.

You still hear those arguments widely —but among some hard-hit companies, they're becoming less important than the need to cut costs in office areas. In the last month or so, cuts have been coming faster.

• **How to Cut**—There's still debate about the best way to reduce the payroll. One argument goes that salary cuts at least keep people working until the upturn comes; the other claims that lower incomes also lower everybody's morale, that outright layoffs, with the survivors continuing at regular pay, work out better.

The problem itself, of course, is not one that any large part of business faces. Most companies are still running in the black, even if margins have been narrowed. And those industries that are essentially all white-collar are generally the least hard-hit: insurance, finance, communications, and retail trade.

• **General Retrenchment**—But among the more heavily hit producing industries, BUSINESS WEEK reporters found few this week where white-collar layoffs had not at least started. Where staff cuts aren't enough, salary reductions are coming into play. Almost half of the companies checked conceded—many unwillingly and few for the record—that they have cut white-collar pay anywhere from 7% to 25%. Another dozen are considering it for the near future.

In effect, says a Detroit auto man, "the white collar is just reaching the point that the blue collar hit six months ago."

• **Shorter Weeks**—The cuts are taking a number of forms. Most common is the shorter work week. The lightest form this takes is shaving a half-hour from each working day, reducing the work week from 37½ hours to 35. With pay reduced proportionately, it comes to about a 7% reduction. Far more often, the work week has been cut back a full day—in effect, a 20% pay cut.

In almost all these cases, production employees were already down to four days or less. Using the same policy for white-collar groups helps to answer the argument that if unionized wages stay constant, clerical wages also should hold firm.

The spring and summer coming in, many employees have tended to look on extra days off, even without pay, as not an entire evil. Particularly when off-days fall on Monday or Friday. In fact, among companies with the shorter work week, any grumbling has been less over lower income than over the fact that workers whose off-days fall in midweek miss the three-day stretch that others get. One company has put the off-day on a vacation basis—full pay will be kept up, but paid vacations will be proportionately reduced.

• **Pay Cuts**—Other companies have found shorter weeks impractical for white-collar staffs. The juggling of schedules and the absence of people with key information create a certain chaos in the work. Executives and department heads, at least, almost have to be available all week. In these cases, salaries have been cut—even in a few steel companies where members of the United Steelworkers are due for an average 9¢ increase in hourly pay on July 1, according to their contract.

A few companies have run a 10% to 20% cut for all salaried people, from top to bottom. More common seems to be the graduated formula typified by a Chicago company that supplies the metalworking and electronics industries: 20% for all who earn above $20,000; 15% between $12,000 and $20,000, and 10% for all others.

• **Mere Psychology?**—How much these cuts actually save a company is arguable.

An aircraft company—counting both layoffs and salary cuts—estimates a $3.5-million saving on its white-collar bill.

On the other hand, a New England machine toolmaker that cut all salaries 10% says: "As a money saving, this cut in salaries is peanuts. We've done it more for morale purposes than to save money. We wanted to be able to point out that we were sharing the hardships along with the hourly workers." This company's production workers are now on a four-day week and a three-week month.

With or without official cuts, incomes for salaried white-collar workers generally seem to be stabilizing, if not dropping. Only two of the companies checked indicate that raises, even for individual cases, are in the offing. A number suggest that, for a while at least, "merit" increases are out, and no raise will be given anyone except in an actual promotion to a more important and responsible job.

• **Weeding Out**—Some tactics work out unexpectedly. An Iowa company, for instance, a year ago employed some 550 "executives." Since last fall, 313 have been dropped. This company started its white-collar layoffs by weeding out the less effective men. Then it found it had to switch methods. The highest-paid men in various divisions were laid off, including the manufacturing boss, and men with lower salaries were moved up.

"We had to start laying off at the top," says a spokesman. "We couldn't have a $15,000 man over only five or six men."

• **Less Overtime**—Incomes are dropping even where no paycuts show as such. Auto companies, for instance, have slashed payrolls by eliminating overtime, which they have been paying to white-collar as well as production workers.

Until very recently, a Ford man, for instance, making $100 a week would probably also pick up an extra 10 hours a week of overtime, for a gross pay of $137. With overtime eliminated, this gross is reduced by a solid 27%. Overtime pay usually stops at the $200 level, where the bonus system often steps in.

Bonus rolls, too, are being sharply

cut, both by raising the base and reducing the range; at Chrysler and Ford, they are probably out entirely this year.

As an indication of how the overtime elimination can affect company costs: GM has 94,000 salaried employees below the bonus level and largely unrepresented by unions; Ford has 45,000 and Chrysler, 24,000. As something of a cushion for this group, the salary workers below the bonus level become eligible this month for cost-of-living and annual improvement increases totaling about $21 a month. The auto companies are expected to turn loose between 5,000 and 10,000 more salaried workers by midsummer.

Bonuses seem to be disappearing in most places. Many of the executive cuts, in fact, are coming in companies that have been giving rich bonuses. Says one comptroller: "We had it good while things were fat. Now we slice it a little while things are lean."

• **Signs of the Times**—In New York, virtually the white-collar capital of the world, overt signs of either layoffs or salary cuts are few. That may be partly because there are few mass industrial layoffs there to contrast with the still happy lot of the office worker.

But the signs of the times show in New York, too. The state employment service and several employment agencies report that their listings of administrative and professional people in the $15,000-and-up class are the largest since the end of World War II, and placements are slow. Although none of them has heard of salary cuts, the offering salaries for clerical workers are 10% to 15% below the year-ago level.

Time Works in Favor of Auto Pact

UAW would like to stall until a strike could hurt the auto companies worse, but it can hardly afford to do so.

The auto industry and the United Auto Workers this week are being nudged toward a new labor contract by their own actions, despite public positions that seem to be poles apart. Each has compelling reasons for wanting to settle now rather than debate the issues through the summer.

At midweek, General Motors, Ford, and Chrysler—acting in concert—stood pat on their offer to renew for two years the contract signed in 1955. They said they wouldn't go one whit beyond it.

UAW's Pres. Walter P. Reuther insisted the union would never under any conditions renew that exact agreement. The 1955 contract doesn't meet today's problems, Reuther said, no matter how good it was then.

Yet, the two sides were being pushed toward a compromise agreement by:

• The companies' refusal to extend the expiring contract even on a day-to-day basis.

• UAW's insistence it would work without a contract and continue negotiating.

• **Time Factor**—This was a check and counter-check.

A strike in the next few weeks would gobble up the union's strike fund, cut off supplementary unemployment benefits and unemployment compensation for those already idled by layoffs—and hurt the companies hardly at all because of the large stock of unsold cars.

On the other hand, if UAW continued to work and to negotiate peaceably, it could carry the dickering down to late August and September, when the companies would be beginning 1959 model production. Then, if management did not yield, the union could strike with telling effect.

The companies' way to block this possibility was to refuse to extend the contracts as they have always done before. They are counting on Reuther's statements that his members would work without a contract, although this would leave UAW members subject to a host of disadvantages (BW—May24 '58,p123) and could disrupt the day-to-day functioning of the union.

Undoubtedly, these countermoves increase pressure for early agreement on a new contract—the companies' best protection against a strike at new-model time and the union's best protection against disintegration.

• **Industry Bargaining**—The events of the week that pushed the companies and the union closer together were both usual and out of the ordinary.

The unusual was the unannounced but very real existence of industrywide bargaining in Detroit. The fact that GM, Ford, and Chrysler were acting together was so well accepted that neither the companies, the unions, nor the reporters bothered to comment on it.

The usual was UAW's back-down from some of its original bargaining objectives. At a news conference a week ago, Reuther ran through a list of 10 pressing problems without mentioning the union's highly publicized profit-sharing plan.

"Profit-sharing," he said impatiently in response to a question, "is not a demand but a mechanism."

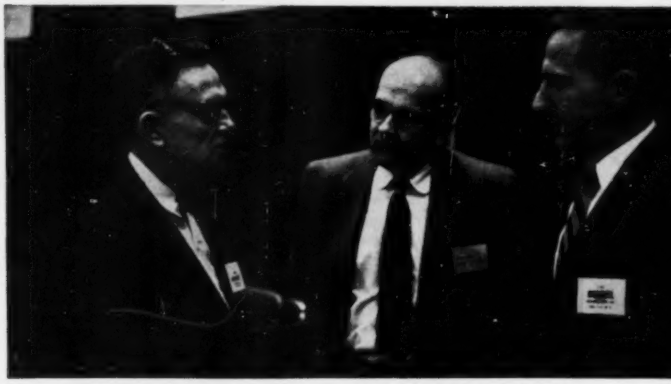
By brushing aside this plan, which has been unacceptable to the auto companies, Reuther obviously was trying to get the negotiations off dead center.

Convention

Once a year, the nation's industrial distributors get together with their manufacturing suppliers to thrash out the trade's problems.

In the past few years, a face-to-face conference-booth program has become the focus of the three-day event sponsored by the National Industrial Distributors Assn., the Southern Industrial Assn., and the American Supply & Ma-

J. Forrest Bennett (facing) discusses Chicago discounting problem with A. S. Boehm of Black & Decker . . .



. . . Complains to George Rouse (center) and J. G. Buechel that Durabla Mfg. Co. dropped a good line . . .

. . . Tells Leonard Rhodes that Lyon Metal Products has good products, should cook up better sales information.

BOOTHS set up in Madison Square Garden (left) provide informal setting for manufacturer-distributor talks.

Hall Takes on Tete-a-Tete Air

chinery Manufacturers Assn. Because of the record crowd this year for the New York show, the booths were set up in Madison Square Garden (above).

The idea is to put top officials of the manufacturing companies in a spot where they can be easily approached by the independent distributors. As Alex V. Davies, vice-president of Moore-Handley (a Birmingham supply house) and president of the Southern group put it: "Communications is our biggest problem. This way, we can get the facts on the table."

As an example, J. Forrest Bennett—president of Couch & Heyle of Peoria—shown above talking with some of his suppliers, has had a list of problems compiled by his own sales people to take up with each manufacturer. Bennett told officials of Lyon Metal Products, Inc., of Aurora, Ill., that they had good products but needed better sales information to go with them. He complained to Durabla Mfg. Co. of New York that it shouldn't have dropped its gauge glass line. And he discussed at length with Black & Decker the "wild discounting" that he says exists in the Chicago area.

SHERMAN tanks, veterans of the war, are seeking civilian careers. Just now, they're . . .

Mr. Ising's Private Army

Offhand, Sherman tanks once worth $47-million might look like a bargain at $305,000.

Walter Ising, Chicago warehouser and president of Laube Steel Co., thought so. Last February, he bid high and got the award for 536 World War II tanks. But before he got his battalion moved from Rock Island Arsenal to Sterling, Ill.—where the tanks are to be scrapped and salvaged—Ising wasn't so sure. The 55-mile march turned out to be heavily mined with hidden costs and harried on every side by government red tape.

• **Tariff Ambush**—First of all, Ising had to get a special tariff approved by the Interstate Commerce Commission, because the tanks couldn't be moved directly from Rock Island to Sterling. Instead, because the Rock Island RR serviced the arsenal, and because the Northwestern Ry. had tracks abutting the yard where the tanks were to be stored, the Rock Island had first to move them, two per flatcar, to Clinton, Iowa—making movement an ICC matter—and transfer them to Northwestern's tracks, then to Sterling.

Since no commercial tariff applies particularly to the hauling of whole tanks by rail, the two railroads applied for a tariff equivalent to the truck rate for hauling scrap and salvage. The original contract specified that Ising had to get the first batch of tanks moved before May 25, or face a Pentagon penalty.

Meanwhile, the Rock Island RR was waiting word on the tariff before it would go ahead on a spur that had to be laid between its track and the tank graveyard.

The roads had to file a second petition—losing more time—because a clerk along the way wrote up the original petition to reduce the rate from $8.35 to $5.38 per ton on a net ton instead of a gross ton basis. This little error would have cost Ising an extra $15,000 for the 17,000-odd gross tons the tanks weighed.

ICC came through May 6, and a few days later the Rock Island was laying the track. Last week, the tanks started moving out of the arsenal at the rate of 30 to 50 carloads a day.

• **Over-All**—Even without these snafus, transportation expenses are running close to $90,000. Other costs include $2,000 for the 225-ft. spur between the Rock Island track and the tank graveyard; $17,000 for blocking (loading tanks onto the flatcars and tying them down for shipment); $8,500 for demilitarization (dismantling of firing mechanisms); and $5,600 for unloading.

• **The Gamble**—Up to this point, Ising's investment is $428,000—and scrap prices have dropped $10 per ton since his February bid. If he sells the tanks for scrap now, he could get about $450,000. But cutting the tanks for scrap costs $7 per ton, and if he can't salvage and find buyers for his tanks, Ising stands to lose about $100,000.

But Ising has one factor in his favor: About 40% of the tanks are in running condition, and about half the remainder can be reconditioned. He hopes to sell a reconditioned tank for between $3,000 and $8,000, and has an eye on markets in friendly countries—something that would first have to be cleared with the Defense Dept. The arsenal already is swarming with government security photographers taking pictures of engine and body numbers, so that a trace can be made if any turn up in foreign countries.

• **Prospects**—Ising, who obviously isn't easily discouraged, has been sending out feelers. He already has sold six tanks as snowplows to keep a Connecticut airfield's runways clear, and responses have come from people who would use the tanks as house wreckers and bulldozers. One woman wants a tank for her amusement park in Farmington, Ill. Several American Legion Posts are considering them for monuments, and a Detroit adman thinks he can capitalize on their display value.

More seriously, research labs are interested in the 500-hp. engines (some twin diesels and some gasoline) for wind tunnels; colleges for experimental purposes; and a few shrimp boat operators for power plants. Ising says the engines will sell from $500 to $1,500.

Lumber mills are looking into the purchase of transmissions, rear ends, and axles, want the tank guts for drives that can be coupled to saws, blades, and motors. There have been inquiries from small manufacturers of farm implements. Individuals with cabins in remote spots have bid for the little gasoline generators in the tanks; and plastic molders have asked for information on pumps.

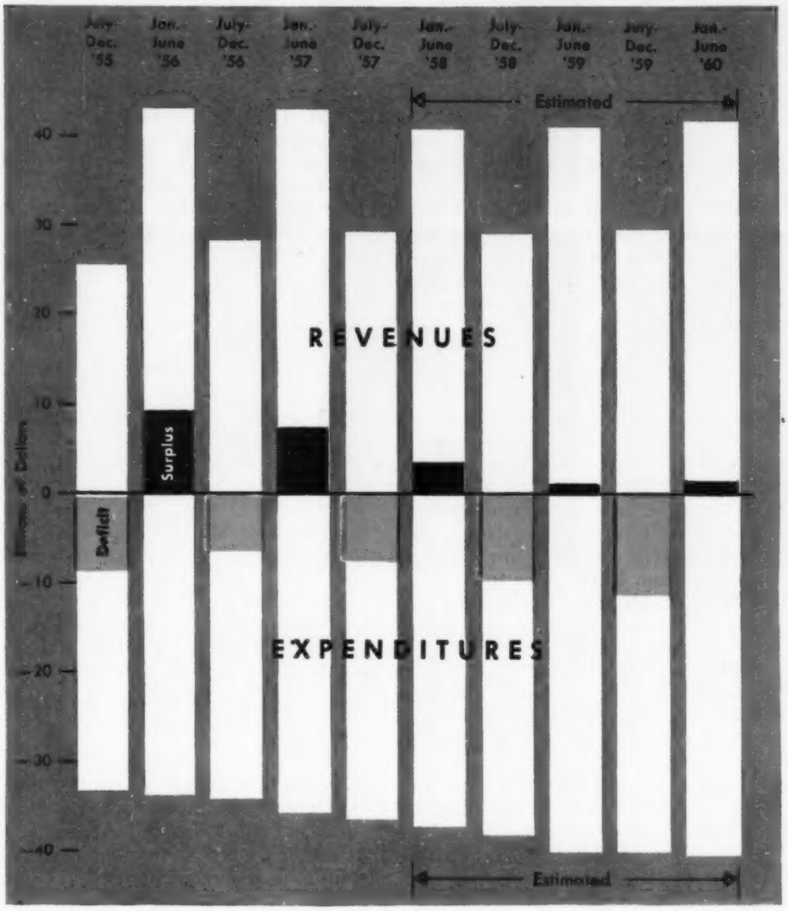
• **On the Level**—Ising has no way of knowing how many inquiries are from screwballs. And in any case he's not in a position to sell anything yet. He warns all interested parties to check their state laws on road weights. Some states won't allow anything as heavy as 35 tons on their highways. Ising is pretty sure that contractors are on the level. Several have wanted tanks for some time to work in swampy areas—ex-GIs claim that the tanks will go through terrain that no commercial piece of equipment can get near.

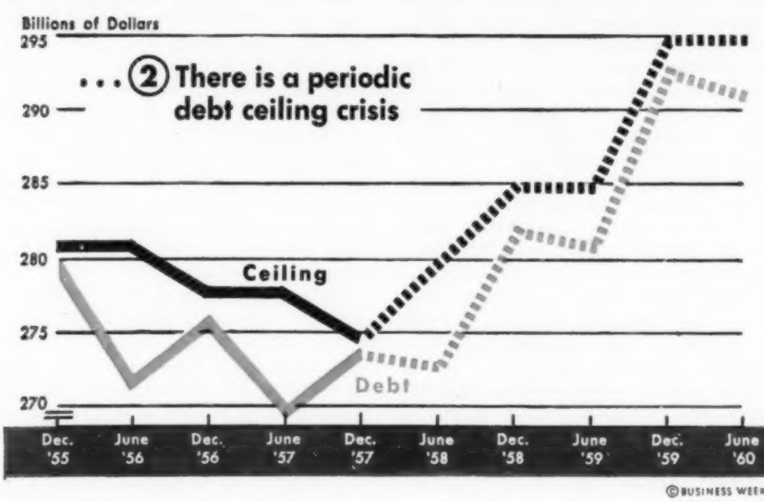
Ising says, "We could make a neat profit."

Arms Makers Fear Retrenchment

Because federal revenue oscillates violently...

... ① The government leaps from SURPLUS to DEFICIT





When the Eisenhower Administration broke through its own budget ceiling last fall in the wake of the Soviet's first Sputnik, many businessmen assumed two things:

• The holddown on the Defense Dept. check writers would be lifted immediately; and . . .

• The last thing that would be bothering defense contractors or anyone else would be the debt ceiling Congress imposes on the Administration.

Now many of these businessmen are learning—painfully—that neither of these assumptions is really true.

Defense Dept.'s stringent regulations imposed during the economy drive last year are still in effect. Stories of a fresh round of restrictions and predictions of even more trouble over the next few months abound in the airplane industry.

And the debt ceiling is destined to remain one of the liveliest issues in Washington for as far ahead as anyone wants to look—certainly through fiscal 1960. The chart shows the periodic pressure the ceiling puts on federal spending. And industries dealing with the Defense Dept. fear this pressure is going to be used as a permanent excuse for holding back payments.

• **Tax Stand**—This week's announcement by the Administration that it opposes tax cuts this year sets the stage. Eisenhower told Congress he hopes corporate income and excise rates will be extended beyond July 1 at present levels. He also opposes a general tax cut for individuals.

Democratic leaders in the House predict that the House will go along with Eisenhower on both points.

• **Mounting Deficits**—One overriding concern brings the Administration and the Democratic leaders together on taxes—their abhorrence of deficits.

Only last January, Treasury Secy. Robert B. Anderson requested—and Congress granted—a \$5-billion increase in the debt ceiling to \$280-billion.

This won't be enough. Recession and the continuing high cost of arms are creating deficits that are likely to force the ceiling up to \$295-billion in fiscal 1960 (charts).

I. Behind the Debt Rise

What's happening this fiscal year is a forerunner of worse to come. When Anderson asked for his \$5-billion ceiling rise last January, the official prediction was for a deficit this year of only \$400-million.

Since then, revenues have shrunk. Anderson now expects \$70-billion this year, instead of \$72.4-billion.

Spending is finally on the rise, too,

after a slow start. Whereas January and February were below a year ago, March and April were slightly higher, and this trend will speed up. Instead of $72.8-billion as expected in January, outlays this year may run to $73.5-billion.

Next fiscal year, starting in July, receipts are expected to be $4-billion or so under the original estimates and spending will be in the neighborhood of $4-billion higher. Instead of a surplus of $500-million, these trends will give an $8-billion to $10-billion deficit.

• **Annual Problem**—Anderson's immediate concern is getting by the winter months—when tax receipts are always at a low ebb, and the debt mounts.

Last year, he let Congress leave town without asking for a ceiling rise. He got by all right—partly by cashing in $100-million of unused gold reserves, and by having the Federal National Mortgage Assn. sell some $800-million worth of securities.

The spending holddown in the Pentagon also helped—though how much is a matter of hot dispute between arms suppliers and the Administration. The arms industries say the Pentagon took $1-billion out of their hides by slowing down payments; Treasury officials say only $400-million was involved. No matter which—the defense suppliers didn't like it. And they greatly fear similar holdbacks this winter in the name of the debt ceiling.

• **Strategy**—Anderson's strategy is to wait until the corporate and excise tax extension bill is safely through Congress. Then he'll be able to get a sharper focus on his winter needs. He'll probably wind up asking for another $5-billion increase in the debt ceiling, knowing he'll need more later on.

II. No Relief for Arms Makers

What the arms makers would like is restoration of all their old methods of doing business with the Pentagon. Many think a really big increase in the debt ceiling is step No. 1.

But there's little to give them cheer. Anderson is not likely to ask for any more rise than he needs to get by the annual December-January shortage of cash, and to maintain maneuvering room for his debt managers. For this purpose, he likes a ceiling at least $3-billion higher than the debt.

• **Growing Alarm**—But no matter what Anderson asks for, there is no indication that the Administration is going to soften its attitude toward its defense suppliers. Just this month, Defense Secy. Neil H. McElroy rejected an appeal by the aviation industry for more liberal payment schedules.

Alarm in the industry is widespread. The Administration policy has been denounced as "immoral" and "unethical" by some spokesmen. Aviation Week, a McGraw-Hill publication, says the rules now in effect create a financial crisis for the industry. The industry talks about new Pentagon stretchouts in delivery schedules, requests for delayed billings, and postponement of contract settlements—all devices to hold down the flow of dollars.

The round of troubles began a year ago, when the Pentagon realized deliveries of finished goods were ahead of schedule. Paying for these goods threatened to wipe out the Administration's projected fiscal-1957 surplus.

• **Holddown Orders**—A series of holddown orders was issued. Overtime was canceled on many large projects, suppliers were asked to delay billings voluntarily, and some contracting officers put a stop to payments until the current fiscal year opened last July.

At this same time, the Pentagon cut progress payments on fixed-price contracts to 70% of the contract instead of 90%.

The Administration let Congress go home without requesting a ceiling rise. But then came Sputnik I and the whole spending picture changed. The Administration began to move slowly toward higher defense outlays, but the debt ceiling was painfully low, and, to stay under it, new steps were taken to preserve cash; biggest was a slash in cost reimbursement payments on cost-plus contracts from 100% down to 80%.

• **Payment Dispute**—The hottest dispute right now, however, is whether the Air Force and the Navy Bureau of Aeronautics are or are not paying promptly for finished goods. Pentagon officials challenge the industry to come forward with a single case of failure to pay a properly submitted bill.

Industry spokesmen insist that contracting officers below the top Pentagon level are asking suppliers not to present bills at all until fiscal 1959 begins July 1. And there's clearly a spending holddown in some defense offices. The Navy's Bureau of Aeronautics, for example, is having trouble keeping within the Defense Dept.'s spending target.

• **Spending Lag**—For the Defense Dept. as a whole, however, there's just as clearly no pinch. The target is to spend $39.1-billion this fiscal year, up from an original goal of $38-billion.

In the first 10 months of the fiscal year, spending was $31.9-billion. To reach $39.1-billion, some $7.2-billion would have to be spent in May and June. But monthly rates have not been running higher than $3.2-billion.

In this situation—in which officials are trying to slow down the cash flow in some programs and speed it up in others—defense suppliers look ahead to the next few months with increasing nervousness. They suspect a major retrenchment program may be in the works—highly selective but still painful.

CED Names

Most important commission on money problems in 50 years is set up now. Its study is expected to take three years.

This week, the nonpartisan Committee for Economic Development announced the members of its long-awaited Commission on Money & Credit. The new commission (pictures) is charged with making the first full-fledged study of the nation's monetary structure since the Aldrich Commission. That group's findings in 1911 led to the establishment of the Federal Reserve System.

The CED first suggested such a study in 1948. Other proposals were made a few years back and, in 1957, Pres. Eisenhower formally asked Congress to support an investigation. But Congress, which is jealous of its authority over money matters, refused to approve this proposal. In November, 1957, the CED got a $500,000 grant from the Ford Foundation to set up an investigation of its own.

• **Three-Year Study**—In launching the commission as a completely independent body, CED Chmn. Donald K. David emphasized that, like the Aldrich Commission, the new group will make a three-year study. Its members, he points out, represent the "wide diversity of interests involved in a basic reassessment of our monetary and financial system."

Every effort has been made, he says, to insure that the group will be "thoroughly objective" and will tackle its job from "the standpoint of the general welfare and not from that of any special political or economic interest."

• **Nominating Committee**—The new commission has 25 members. They were not chosen by the CED directly but with "the advice and consent of" a special 10-man selection committee of educators and economists, which included Arthur Burns, former chairman of the President's Council of Economic Advisers. The CED adopted this procedure not only to insure getting the best possible candidates but also with an eye to the kind of protocol that normally accompanies the appointment of Presidential committees.

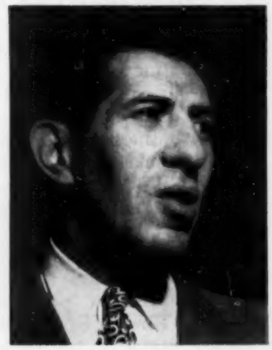
There is no doubt that the CED succeeded in getting a broadly based and representative group, including men from banking, business, agriculture, and labor. It is also fairly evenly balanced between Republicans and Democrats. As one member of the selection committee explained, "We wanted to be sure that their recommendations will

Men Who'll Study Money System

Frazar B. Wilde

H. Christian Sonne

J. Cameron Thomson



Robert R. Nathan

Marriner Eccles

Lamar Fleming, Jr.

Stanley Ruttenberg

Allan Sproul

get a fair hearing, whoever is in Congress or the White House in 1961."

• **CED Veterans**—But despite its independence, the new commission has a CED orientation. Its chairman is Frazar B. Wilde, president of Connecticut General Life Insurance Co. and chairman of the CED's research and policy committee. The vice-chairman is H. Christian Sonne, a banker and businessman who is head of the National Planning Assn. and is a CED trustee. Sonne was also a member of the selection committee.

Other CED members on the commission include Lamar Fleming, Jr., chairman of Anderson, Clayton & Co.; Fred Lazarus, Jr., chairman of Federated Department Stores, Inc. (page 33); J. Cameron Thomson, chairman of Northwest Bancorporation; Theodore O. Yntema, vice-president of Ford Motor Co., Allan Sproul, former president of New York's Federal Reserve Bank, and Beardsley Ruml, former chairman of R. H. Macy & Co.

• **Labor People**—There are two official labor representatives on the commission: Stanley H. Ruttenberg, director of research for the AFL-CIO, and William F. Schitzler, AFL-CIO's secretary-treasurer.

In addition, there are some members considered "sympathetic" to labor such as Robert R. Nathan, a World War II bureaucrat turned economic consultant, and Isador Lubin, special assistant to Pres. Roosevelt and now New York State's industrial commissioner.

The Aldrich Commission had no labor representation. And the trade union movement has always resented the fact that an agricultural man, but no one from labor, has always been a member of the Fed's seven-man board of governors. Part of the delay in naming the new commission seems to have been due to labor's reluctance to join a "business-oriented" commission.

• **Flexible Thinking**—Great care was obviously taken in giving representation to specific groups. However, David stresses that the members were chosen primarily for their "individual capacities."

Even though some members may be said to represent various positions and interests, it is difficult to predict just what kind of position the group as a whole will take. That's because only a minority of the members have definite positions. Wilde, for example, clearly favors an orthodox approach and supports the independence of the Federal Reserve. At the same time, an associate describes him as "the ideal chairman because he will support with great integrity whatever the majority decides."

Sonne, who is well thought of by labor, also holds orthodox views—so orthodox, says one observer, that "they are positively 19th Century." Yet, Thomson, a banker, is regarded as "a liberal" in monetary matters, and the same holds true for Lazarus.

• **Money Experts**—One of the strongest men on the committee will be Allan Sproul, who is widely regarded as the nation's No. 1 central banker. Sproul, who retired from the Fed two years ago, has long been in favor of supplementing the present general credit controls with specific controls over such areas as consumer credit and mortgages.

Another monetary expert on the committee is Marriner Eccles, former chairman of the Fed. He also is expected to favor changes in both monetary and fiscal controls. And Beardsley Ruml, who sponsored the "pay-as-you-go" tax plan, will be active in investigating the tax aspects of the commission's work.

• **Others on Team**—Here is a rundown on other commission members:

Adolf A. Berle, Jr., now of Columbia University, is expected to take a liberal approach.

James B. Black, chairman of Pacific Gas & Electric Co., has served as industrial adviser to the Treasury.

Henry H. Fowler, director of the

Office of Defense Mobilization under Pres. Truman, is public power expert.

Fred T. Greene, president of Indianapolis' Federal Home Loan Bank represents the savings and loan associations.

Philip M. Klutznick of Chicago is a public housing expert.

Irwin Miller, chairman of Cummins Engine Co., is expected to concentrate on small business credit problems.

David Rockefeller, vice-chairman of New York's Chase Manhattan Bank, is the grandson of Nelson Aldrich, who headed the original study.

Charles Sawyer was Secy. of Commerce under Truman.

Earl B. Schwulst, president of New York's big Bowery Savings Bank represents the mutual savings banks.

Charles B. Shuman is president of the American Farm Bureau.

Jesse W. Tapp, chairman of the Bank of America.

Willard L. Thorp, director of Amherst College's Merrill Center for Economics, is a foreign trade expert.

• **Demanding Job**—The CED had first planned on a smaller group, then enlarged it to get broad representation. It is satisfied it has assembled a distinquished group, although it had some notable turndowns, including Burns.

Service on the commission will be hard work. Both Wilde and Sonne expect to spend at least a day a week in their posts over the next three years. And the other members will average one formal meeting a month, in addition to a lot of reading and studying.

The commission's first task is to choose a research director, who will play a large role. Following CED's pattern, the group will set up an advisory board of academic experts to help advise on the selection of a research director and staff.

• **Progress Reports**—Because of the large size of the commission, it is probable that a number of sub-committees will be formed to study specific areas. In addition, the group will authorize a large number of research papers and monographs to be done by outside experts. There may also be public hearings on such issues as small-business financing or consumer controls.

While the full study will not be completed for about three years, special reports may be issued from time to time. Though the CED hopes that the group will reach substantial agreement, they do not want any recommendation watered down to the point of uselessness because of the compromises. Instead, once a majority of the commission reaches agreement, an opportunity will be provided for dissents.

The CED hopes that the commission will come up with recommendations as far-reaching as those of the Aldrich Commission. Though the new group doesn't have the same authorization, CED feels that its broad representation and its independence will give similar weight to its views.

Why Business Spending Sags

Businessmen tell their reasons for slowdown in capital spending—mostly lack of need for more capacity, and pressure on cash. They see no big early spur to spending.

Capital spending is declining sharply right now. As the McGraw-Hill survey reported this spring (BW—Apr.19'58, p31), business plans for new plant and equipment indicate a total drop of about 20% from 1957 to 1959. That's a key reason why this is turning out to be the longest and most serious of the postwar recessions—and why a business upturn, when it comes, promises to be sluggish (BW—May3'58,p26).

During the past two weeks, BUSINESS WEEK reporters throughout the country have been interviewing dozens of corporation officials who make the capital spending decisions—to get a first-hand picture of the reasons behind the decline, the way businessmen presently see the outlook for their own companies' capital spending, and what they think can be done to give capital spending a lift.

• **Pattern**—What emerges from these interviews is a highly varied and complex pattern which, nevertheless, reveals some quite clear conclusions:

• The decline in capital spending was caused mainly by two things: (1) a lack of need for additional capacity as a result of the heavy rate of spending for new plant and equipment since the end of the war, but particularly in 1955-57, and (2) the pressure on cash which became particularly acute when sales fell off at the end of 1957.

• Business is showing no signs of panic. Despite the drop in profits, the cash flow to corporations is holding up well. That is primarily because of rising allowances for depreciation, which have become an increasingly important source of funds for business investment in new plant and equipment.

• Yet business generally can't see any likely development at this point which would make for a rise in the capital spending trend for many months to come.

Few businessmen think that a change in depreciation allowances or the corporate income tax would have any significant short-term effect on their investment plans. And very few expect a sharp enough recovery in sales to necessitate major additions to capacity for the next couple of years. Indeed, some companies now think they won't be needing extra capacity until well into the 1960s.

Of course, this kind of super-cautious outlook can be as short-sighted as the super-confidence of 1955-57 proved to be. Nevertheless, it exists today—and is an economic factor itself.

I. Why They Spend—or Don't

When you talk to businessmen about how they make capital spending decisions, you get a story which sounds simpler—but is really more complicated—than any economist's theory of investment. For most companies, the critical question is this:

Have we got enough capacity to handle present or prospective sales?

When businessmen almost unanimously answered that question in the negative in 1955, the capital spending boom was on. When they answered it affirmatively at the end of 1957, the capital spending recession started.

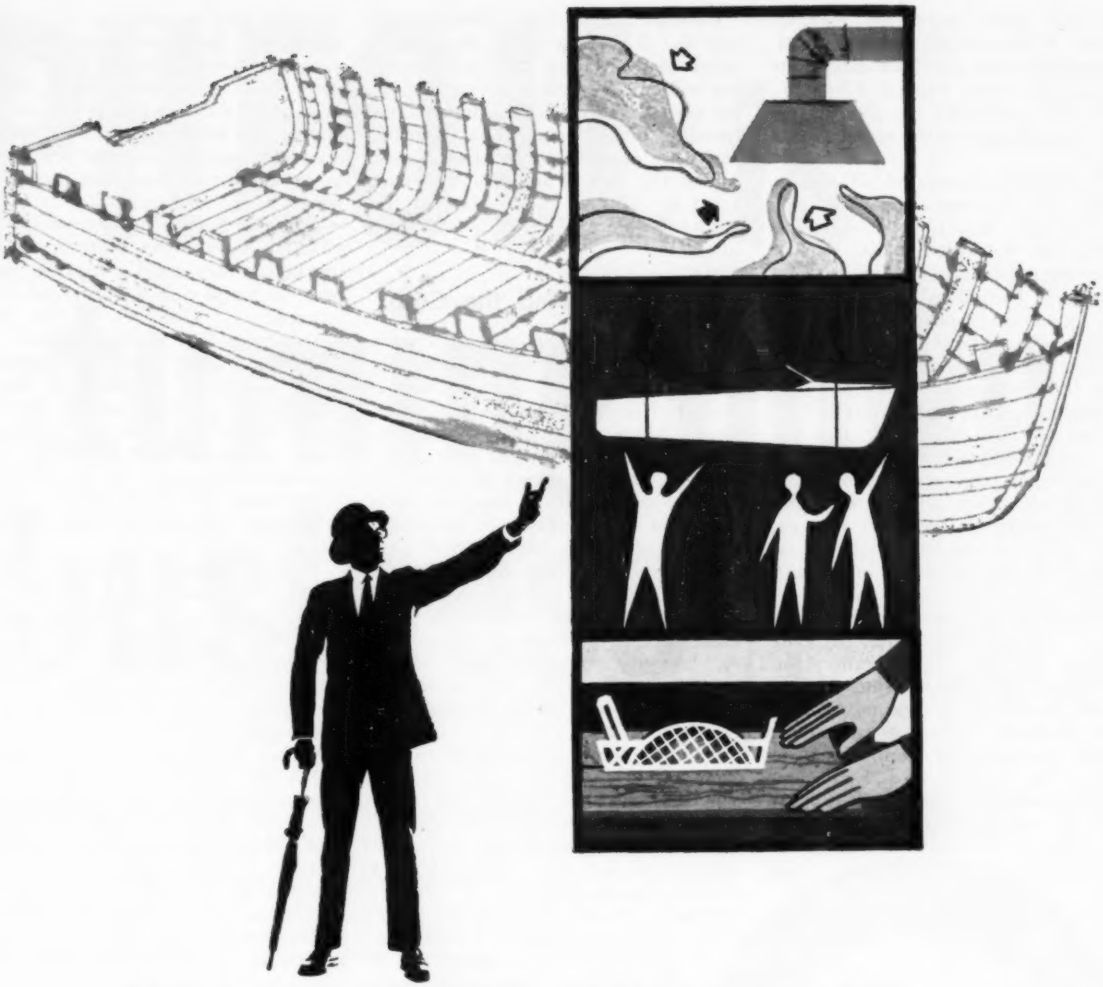
What are they saying now?

• **Slow Growth Ahead**—Says Walter E. Hoadley, Jr., treasurer and economist of the Armstrong Cork Co.: "We still believe in the interim period thesis." By this, Hoadley means the thesis that the economy has entered a period of, at best, very slow growth compared with the earlier postwar period. Hoadley says Armstrong's management had a strong feeling from 1956 on that the capacity problem would arise. It saw backlogs ending and the rate of family formation declining—a factor of particular importance to an outfit such as Armstrong, whose business is closely related to housing construction.

Armstrong thinks its own business is at the bottom now, and will be starting up this fall. Armstrong foresees an uneven course of development in the areas where it does business. Industrial building, says Hoadley, looks weak; packaging is a "moderate growth" area; and residential building looks "strongest"—but with nothing in view near the past postwar peaks until well into the 1960s.

But this implies little push for extra capacity.

• **Exceptions**—Armstrong's "interim" thesis finds echoes in many other industries—steel, nonferrous metals, autos,



pulp and paper, petroleum refining, textiles. Within broad industry classifications, there are individual exceptions—such as Champion Paper & Fibre Co., which has embarked on the biggest capital spending program in its 45-year history.

Champion has earmarked $20-million for this year, has more on tap—and this is an industry that right now has an overcapacity of about 500,000 tons of pulp-making facilities—out of its total capacity of 4.5-million tons. A Champion spokesman explains: "That's the way you stay ahead." Champion is spending to improve the quality of its paper and to increase efficiency.

• **Caught Up**—But such individual exceptions as Champion don't alter the basic situation: Industry built enough capacity in the past two years to handle the kind of growth rate we were getting in 1955-56—but that rate has vanished. And industry has caught up on its most obvious needs for modernization and relocation.

• **Point of No Return**—Even companies that are still spending money to boost efficiency see this. For instance, the Cooper-Bessemer Corp., which makes gas and diesel engines, compressors, and allied products, thinks it may have reached the point of 'diminishing returns in this respect. As J. E. Brown, secretary-treasurer, puts it: "It's so damnably rare any more when you can find a tool so much more efficient as to pay for its installation in reduced labor costs."

One reason is that high-priced new tools and equipment have to be a lot more efficient than present equipment before a company can even begin to get its money back. Cooper-Bessemer recognizes this even in its own products.

"After all," says Chmn. Lawrence F. Williams, "what do you spend money for—to make money. Right now, we're making an engine that produces three times the horsepower in the same space, with a 40% fuel saving over our engines of 10 years ago, and yet we still can't obsolete the equipment that our customers are now using. It's fully depreciated and pretty cheap to operate, so they're just going to keep on using it for a while."

Some companies, of course, are still using inefficient prewar equipment that they'd love to junk—but can't because they're in financial trouble. Among those you can count the railroads and many textile mills.

• **Lost Spur**—Regional shifts in capital spending don't seem to be the spur to over-all growth that they have been. The postwar boom in new buildings put in place efficient new plants wherever the changing regional pattern of markets dictated. These new buildings, in new places, won't quickly become obsolete.

General Electric, for instance, has said that it made a major effort to relocate plants during the past decade, but will do very little new building for the next several years. The tremendous spending by steel companies to install new basic capacity on the East Coast, and in the Detroit and Chicago areas, won't be repeated soon. Most of the southward shift of textiles has been completed.

II. Where to Find the Cash?

But capacity requirements aren't necessarily the determining factor in deciding whether a company spends more or less on new plant and equipment. Many businessmen think the more basic question is:

Do we have the money to spend?

These days, plenty of company treasurers and comptrollers are answering that one with a resounding "No." One big manufacturer—who didn't want to be identified for obvious reasons—told BUSINESS WEEK that his company had been spending more than it earned for the last few years, felt that it had spent up to the limit, and was worried that its long-term debt structure was already too high.

Though money was available to this company, if its officers wanted it, this man said that to borrow any more "would only invite regulation and restrictive clauses from bankers and insurance people who then would have a voice in management."

• **Cloudy Future**—A capital goods maker said it wasn't fear of excess capacity that caused his company to cut its capital spending. The chief reason was simple: "We're losing money." The company's first concern, said this businessman, was to retain cash. The future looked awfully cloudy to it:

"We can make plans for years ahead, but let's not kid ourselves. We can't see very far. We have to run this business mostly on general impressions."

Pressures of the kind felt in these hardship cases are affecting a very wide number of companies today—if less intensely. In this slump, corporate profits have been cut more sharply than in the previous postwar recessions.

• **Sluggish Cash Flow**—Profits are not, of course, the only source of funds for capital spending. The most important determinant of capital spending is "cash flow"—retained earnings plus depreciation. And most companies have more cash than in 1949 or 1954.

But it's also clear that there has been a significant reduction in cash flow since 1957. This contrasts with the situation in 1949, when there was little change, and in 1954, when cash flow actually increased because of tax reduction and faster depreciation.

Of course, companies could make up the reduction in cash flow by outside borrowing. But most companies were already borrowing heavily in 1957 and don't think it's prudent to go deeper in debt at a time when profits are declining. So reduced cash flow is having a severe impact on plans for new investment—an impact that hasn't occurred before in the postwar period.

• **Big and Small**—Big companies, the BUSINESS WEEK survey suggests, are faring better than small companies right now, so far as cash is concerned. Said Lawrence G. Campbell of the Alan Wood Steel Co. of Philadelphia:

"There is always room for improvements and there are plenty of things we'd like to go ahead and do. But we simply haven't the cash and, with sales down, we don't want to borrow any more than we have to." So Alan Wood's policy now, says Campbell, is "Let's defer everything we can unless we absolutely need it."

This situation is general. Federal Trade Commission figures indicate that profits of corporations with assets under $1-million are declining twice as fast as those with assets from $10-million up. The smallest corporations did not, as a group, make any profit at all in fourth-quarter 1957.

So far, the worst trouble is concentrated among small companies and depressed industries. But together these companies constitute a fair-sized group that can no longer maintain, much less increase, capital investment. They threaten to be a drag on any upturn that begins with a revival of investment by the stronger companies. Again, these conditions were not present to the same extent in 1949 or 1954.

III. What Will Start It Moving

Most companies covered by the BUSINESS WEEK survey—in which big outfits predominated—insisted that money wasn't their real problem. It was markets—and present capacity. So they couldn't see how lower interest rates, more available credit, faster depreciation allowances, or even a small cut in the corporate income tax would do them much immediate good.

For the longer haul, business regards these as stimulants for capital spending. But right now, what business is panting for is more orders from customers.

When those orders start showing up in greater volume, companies will be impelled forward on their investment planning by another critical factor—one that is helping to sustain capital spending even today. That factor is each company's determination to hang onto its share of a market—or to get a bigger share while the getting is good. Of such determinations are capital spending cycles and business cycles made.

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In Business

• • •

Officials Blush as Surplus Butter Is Shipped to Dairy-Rich Wisconsin

Red-eared officials of the Agriculture Dept. are trying to laugh off the 120,000 lb. of surplus butter that they had absent-mindedly shipped into that center of the butter-making industry, Wisconsin. And they have hastily rerouted another 150,000 lb. that had been started on the road to Wisconsin's institutions and welfare agencies.

"Oops, sorry," muttered the department's Dairy Marketing Service in Chicago, admitting it knew all along that Wisconsin is an exporter, not an importer, of surplus butter.

Hawaii, a legally walled citadel of the cane sugar industry, is getting its first shipments of beet sugar, by special permission of the Agriculture Dept. Unlike Wisconsin's butter, this is no blooper; **the island's reserves of cane sugar have run out, squeezed by the strike that started Feb. 1 on 27 plantations.**

It's too early to say how Hawaiian palates will react to their long-time anathema; some outside experts say they can't tell beet sugar from cane.

• • •

Postal Rates Will Be Boosted on Aug. 1 With 1¢ Tacked on Nearly All Items

Starting Aug. 1, citizens and business will find themselves paying about $550-million more a year for the services of the Post Office.

A bill tacking 1¢ each on the 2¢ postcard, the 3¢ first-class letter, the 4¢ air postcard, and the 6¢ airmail letter was signed this week by Pres. Eisenhower. Third-class rates will also go up, some of them Aug. 1, and some in January. Among them: the piece and pound rates on bulk mailings, and the piece rate on individual third-class mailings.

• • •

Boston's Commuter Railroads Slash Service on Red Ink Stained Runs

This weekend, there's a violent explosion of the drastic action that has been threatened for a long time by the commuter railroads leading into Boston (BW—Jan.18'58,p149).

Effective June 1, the Boston & Maine's timetable lists upwards of 100 fewer trains, 70 of them scratched from the commuter area. Also, 26 stations near Boston are being closed.

On the same day, the New Haven declares it will discontinue all passenger trains between Boston, the South Shore, and Cape Cod. The New Haven move means that 9,500 commuters will have to seek other public transport—none exists now—while another 1,500 will be affected by the May 31 closing of passenger runs on a meandering Boston & Albany commuter branch.

The action by the New Haven was authorized by the federal court decrees that brought the road out of reorganization in 1947. **The court ruled that if passenger losses on the Old Colony Div. should exceed $850,000 in any 12-month period, the service could be ended.** Actually, the road claims its losses have topped this figure in every year since 1948.

The New Haven has been threatening to act for more than a year, hoping thereby to get subsidies and tax relief. When none was visible, the New Haven secured a federal injunction barring the Commonwealth of Massachusetts from interfering with the shutdown.

Last week, while the state's Attorney General sought to upset the federal order, residents and businessmen struggled to patch together a subsidy and tax plan that would keep the trains running.

• • •

Highway Trust Has $1-Billion in the Kitty As Program Lives Up to Predictions

Motorists are pumping tax money from gasoline, tires, etc. into the Highway Trust Fund at just about the rate predicted by the experts. For the 22 months through last April, $3.3-billion collections went into the fund, while some $2.2-billion was paid out to the states for new highways, leaving $1-billion-plus in the kitty.

Under the speedup already approved, next year's highway spending will outrun collections by about $200-million. After that—unless Congress and the President decide otherwise—the program will be tailored back to fit the tax income.

• • •

United Press Swallows Hearst's INS In Merger of Major Wire Services

One of the three leading U.S. wire services virtually disappeared last week when Hearst Corp.'s International News Service was sold to the United Press Assn. for an undisclosed amount of UP stock. UP is controlled by E. W. Scripps Co., which also has a large interest in the Scripps-Howard newspaper chain.

Hearst publications and broadcasting outlets have been the chief customers for the news and features supplied by INS. **The present deal is called a merger**—the surviving service will be labeled United Press International—but only about 10% of the editorial workers and none of the mechanical employees of INS will be retained.

The Justice Dept. is inquiring into possible antitrust aspects, but trade circles believe the deal will stand up because INS has been losing money for some time.

Other Hearst-Scripps-Howard combinations are suggested in trade gossip. One rumor has it that Hearst's San Francisco Examiner will swallow the Scripps paper there, while Scripps' Pittsburgh Press will take over the local Hearst paper.

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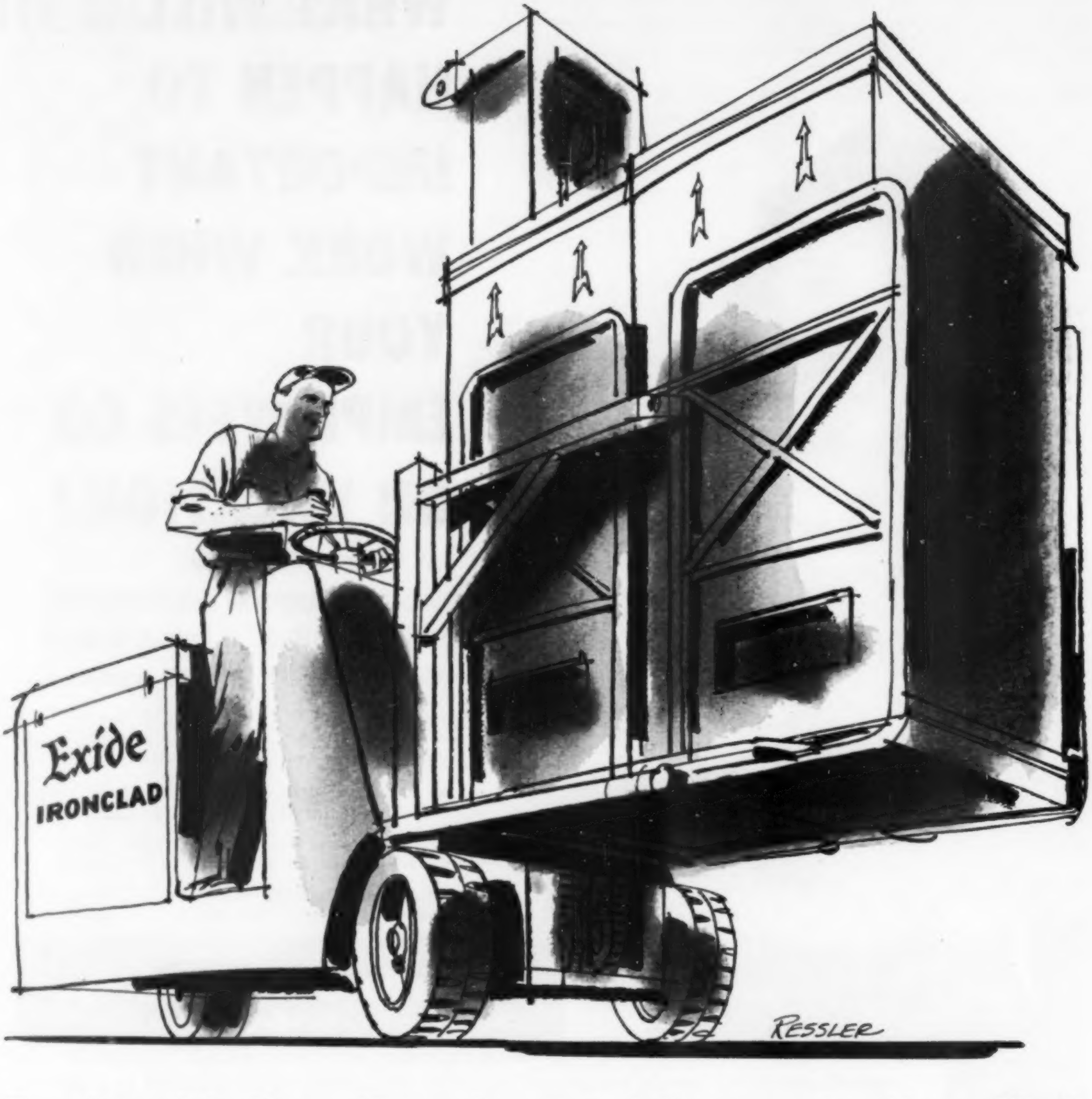

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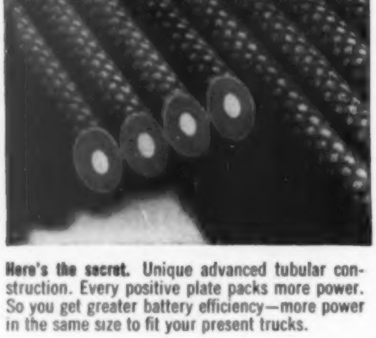

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WASHINGTON OUTLOOK

WASHINGTON
BUREAU
MAY 31, 1958

A BUSINESS WEEK
SERVICE

Congress is getting into a going home mood. Members feel that the major decisions for the year have already been made. Ticked off, they are: (1) more money for defense and public works, (2) a generous foreign aid program, (3) a tariff bill that is not too protectionist, and (4) no big tax cut this year. There's still work to be done to carry out these decisions—a lot of votes to be cast and counted. But the decisions are made.

Those four decisions are the overriding ones. And congressmen have a feeling that no other votes are very important. On other issues, they can vote their constituency or their conscience, and it won't matter.

So how are the big issues going to be voted? The pattern is becoming pretty clear. A lot of events have influenced Congress. The Russian missile advance last fall had its effect. The recession added its influence. And foreign affairs stimulated recent Congressional thinking: The attacks on Vice-Pres. Nixon in South America brought up short the temptation of many congressmen to raise protective trade barriers, or to cut aid. The French crisis certainly strengthens the Administration's hand.

The rundown shapes something like this:

More money for defense: Already increased funds are going out for missiles and newer weapons, and for research. The government spending rate is increasing. A modest surplus predicted in January is now a multi-billion-dollar deficit. Washington sees the trend continuing, perhaps for years to come (page 21).

On foreign aid, Congress has been less truculent than before. The Senate is considering a larger bill than the House passed—the final figure will be around $3.6-billion. There are quibbles about whether there should be more or less money for military aid and less for economic aid, but Pres. Eisenhower will get about what he wants.

The reciprocal trade bill will be voted on in the House next week. It was to be the crux of a policy battle. This was to be the year of a return to protectionism. But look at the issue now as the debate gets under way: Freer traders and the Administration had enough votes to get a "liberal" bill out of committee. So whatever the House and Senate do, the outcome will be a compromise best described as effective extension of the old Cordell Hull program, or at least a continuation of the status quo. The point is that Congress is not yet a "high tariff" body.

A general tax cut is a dead issue. The President's decision this week to propose specific relief only for small business is practically final for Washington. Without White House backing, a big tax bill is out of the question. The corporation income rate of 52% will be extended, as well as the so-called Korean excises.

Other anti-recession actions are just about as predictable. Congress will extend unemployment compensation on Eisenhower's terms. That is,

WASHINGTON BUREAU
MAY 31, 1958

an additional 50% of pay for workers whose eligibility has expired. The federal aid would be a loan, to be repaid out of state reserves.

The $1-billion Fulbright program is about ready for House vote. The legislation, already passed by the Senate, will offer localities low-cost loans for community facilities. The House may tack on the legislation a pin-pointed depressed area provision.

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Here is a rundown of lesser issues:

Fair trade: There will be a committee report, but that's all. The House Interstate Commerce Committee will probably approve legislation attempting to reestablish the right of a manufacturer and a retailer to agree on a resale price. The bill now under consideration would go farther than previous laws that have been rejected by the courts. Congress won't pass the bill this session; a renewed drive will be made next year.

Union welfare funds: The Senate passed a disclosure bill, but the House Labor Committee is so tied up in major and minor disputes that prospects are nothing will happen.

Union regulation: Again the Senate may adopt some provisions restricting the power of union leaders, but there is no chance the House committee will act.

An increase in federal aid to airports is getting new attention. Democrats want to increase outlays immediately from the present $63-million to $100-million a year. The federal money is matched by local governments on a 50-50 basis. The Administration, already opposed to continuing the $63-million program, probably will be able to defer the new program this year. But it will be up again next.

Pre-merger notification: The legislation is stymied in the House Rules Committee, and the Senate Judiciary Committee has yet to report a measure Chances of passage seem slight.

Small business capital bill: The Senate Banking Committee bill approved this week appears likely to pass Congress. The legislation would give the Small Business Administration three-year authority to use a $250-million revolving fund to invest in small business and local government development companies.

Alaska statehood: Proponents are pessimistic, despite the final approval by the House this week. The Senate can be a big barrier. Their fear is that if final passage isn't accomplished this year, it will be a long time before another try would be successful.

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The Pentagon's highly touted weapons system management scheme is coming up for a serious second look. The plan turns over to a prime contractor virtually complete control over design and production of a missile, including direction of component specifications and procurement. Now military officials are seeing some bad results on some counts.

Biggest complaint: The military services have abdicated control over projects that result in increased development costs. Officials say that many weapons systems managers are duplicating each other's ground support equipment and important components.

You can expect some new restrictions soon—perhaps limiting the power of the primes on their own selection of standard hardware, and so on.

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When a Businessman-in-Politics

Gets Back at the Company Helm

George M. Humphrey (left), back home from Treasury and Cabinet, turns eagerly to "revitalizing" National Steel—and a new Brazil ore development.

It's often said of businessmen who have taken high positions in the government that they are never quite the same again. The challenge and responsibility of dealing in terms of millions of people and billions of dollars can make the affairs of a single corporation—even a big corporation—seem a little parochial. The government can become the high point of such a man's life; what went before becomes prologue, and what comes after becomes anticlimax.

This may or may not be true of other businessmen. It most certainly is not true of George M. Humphrey (picture), who resigned last July after four and a half years as Secretary of the Treasury and strong man of the Eisenhower Administration.

Humphrey went back to Cleveland, to all outward appearances exactly the same man who left there late in 1952. Quickly and with evident enjoyment he has picked up the reins of the various businesses he had been involved with for the previous 35 years. And at 68, he has set out to put the climax on his career in the role of a businessman and not as a public servant.

• **Time Limit**—At National Steel Corp., where Humphrey last year succeeded Ernest T. Weir as chairman of the board, Humphrey is the company's strongest personality, running a program to "revitalize" it. At M. A. Hanna Co., which he headed when he left for Washington (and which owns 27% of National's stock), Humphrey holds the title of "honorary chairman of the board." He is working there on a large iron ore development in Brazil that may be his final great achievement in a business life marked by spectacular industrial developments.

He has only three years, however, to put together this new venture and start it on its way to production. Before he came back from government service, Humphrey sought—and the Hanna companies approved—a provision that members of their boards must retire "after their 70th year."

Under its terms, Humphrey must leave both the Hanna and National Steel boards by March, 1961, when he will be 71. That, of course, won't end Humphrey's influence in the companies. But it's probable he wants to finish his major projects by then.

• **Quick Transitions**—When he joined the Eisenhower Administration, Humphrey was the epitome of the businessman in government. He came from a background of heavy industry—the mining of ores, the production of steel, large-scale water transportation. He had made it an industrial habit to avoid the limelight. He seldom talked to reporters. Nationally, he was relatively unknown.

He adjusted easily to the different ways of politics. He took over the Treasury Dept. with few shifts in his administrative behavior, and moved from the spending of millions to the handling of billions with no maladjustments of his psychic sacroiliac.

Having finished his government tour, he has readjusted to the millions-only category without any apparent feeling of a comedown in importance from his federal assignment. He is glad to be back in industry—and told a BUSINESS WEEK reporter the other day, "I feel very much more natural in business."

"But," he added, "neither Mrs. Humphrey nor I would take anything for the experiences we had in Washington. We made many a good friend who will stay with us for the rest of our lives."

If he had the decision to make again, under the same circumstances, said Humphrey, he would do the same thing.

I. Pepping Up a Company

While he finds the psychological adjustment back to industry easy, Humphrey's task at National Steel is not a simple one. In taking over the board chairmanship late last summer, he inherited a company that had come to the end of a generation. Its dominant figure had been Weir, who with Humphrey and George Fink of Detroit had put National together out of these pieces—Weirton Steel Co., Great Lakes Steel Corp., and the huge Hanna interests in iron ore, lake vessels, and lower lakes blast furnaces.

National had put its chips primarily on tinplate and flat rolled products used mainly by the automobile, appliance, and packaging industries. Humphrey had played an important part in this decision. Weir provided the driving force.

It was a good decision, and the profits piled up steadily.

• **Holding the Line**—When Humphrey took over last year, however, he found a company suffering from the first stages of the current business recession as well as from a lethargy brought on by years of success. Competitors had invaded National's major markets to such an extent that many outsiders seriously questioned whether Humphrey could continue to adhere to the old product mix.

These outsiders were predicting diversification and mergers, and proclaiming that this would be Humphrey's first big problem. Remarks of Pres. Thomas E. Millsop at National's 1957 annual meeting were interpreted as indicating the company would diversify to assure continued profitability.

Humphrey didn't see it that way. His stint in Washington had clearly revealed a characteristic trait—that of championing a principle he believes in against opposition based both on argumentation and sentiment. To him, National's product mix had been satisfactory, and could be again.

So at least for now, he has put aside all suggestions that National look to other products or other customers for future profits. At this year's annual meeting, he indicated that he was satisfied with National's product line, that he planned no diversification, and had no mergers under consideration.

• **Rumor Mill**—This statement set off predictions that Millsop and Humphrey were coming to the parting of the ways. This Humphrey denies.

"There is no disagreement between Tom and me on any company policy," he says. "We are always watchful to take advantage of any opportunity. We will expand in any way whenever it is advantageous to do so. But our present lines and locations now look good to us."

• **Prescription**—If so, then how does Humphrey plan to "revitalize" National, and lift its profitability back to its former level among the industry's profit leaders? National's profit margin has hovered around 7% to 8% on sales for seven years while others—notably U. S. Steel Corp. (BW—May3'58,p34) have climbed up to or above that level. But in 1950 National topped the industry with a 10.77% return on sales.

Humphrey's answer is twofold: (1) a youth movement and (2) new ideas from the outside.

It hasn't taken him long to put his answer to work. Just before last month's annual meeting Edwin O. Burgham, 68, president of Weirton Steel Co., a National division, was raised to chairman of the division. Pres. Paul Carnahan, 53, of Great Lakes Steel was named chairman of that division.

This made room for two new and younger men with "new ideas." Albert J. Berdis, 49, came from Olin Mathieson Chemical Corp. to take the Weirton presidency; he had gained his steel experience at U.S. Steel Corp., where he most recently had built and run the Fairless Works. Wilfred D. MacDon-

nell was promoted from vice-president of operations at Great Lakes Steel to division president (he had come from Bethlehem Steel early in 1957).

• **Directors, Too**—Then Humphrey turned to the board of directors. Outside board members have been a National tradition, but Humphrey, on his return, didn't find the diversity he wanted.

So "inside" members Burgham and Carnahan lost their board seats. Four new "outsiders" have been elected: Walker L. Cisler, 60, president of Detroit Edison Co.; Henry T. Bodman, 52, recently elected president of the National Bank of Detroit; and Leonard S. Mudge, 51, and Henry L. Hillman, 39, two of Pittsburgh's prominent younger businessmen.

Humphrey points out that these men are "closely associated with the company's interests and ownership," and are "highly respected businessmen from the cities closest to the company's affairs."

• **Unworried**—Humphrey says he also plans to move up younger men in the existing organization. At least for now, he is staking National's future on these two points: new ideas and youth. He seems undisturbed by the possibility that other steel companies may be expanding more rapidly than National.

"I am not worried about the capacity of National in relation to other steel companies," he says. "I am only interested that National has the capacity to serve its customers and that it serves these customers well. We are more interested in being good than big."

II. Crown for a Career

While busily engaged in untangling the problems he found at National, Humphrey is still playing an important role at M. A. Hanna Co., which he headed for 23 years up to 1952.

Hanna, in addition to its 27% ownership of National, has important holdings in several other companies, including Consolidation Coal Co., formerly Pittsburgh Consolidation Coal Co. Humphrey has resumed his seat on the board of Consolidation, where he formerly was chairman.

• **Magnet**—As honorary chairman of the board at Hanna, Humphrey is showing the same strong personality that made him so influential in the President's Cabinet. He has made a deliberate effort to remove himself from the company's routine business by moving his office down two floors below the Hanna executive offices in Cleveland's Leader Building. Even so, his influence is widely and frequently felt.

It's a Humphrey characteristic that on any team or in any group or organization, his is the dominant personality. When he heads a company, there's no

question about who is "boss." As one Clevelander recently remarked:

"In a room of a hundred leading businessmen, Humphrey would stand out. People would be gathering around him for conversation and advice."

At Hanna, at any rate, he is the strong personality. He retains a consultant role, and when company people have an important problem, they trek down the two floors to his office.

• **Final Coup**—It is with Hanna, too, that the former Secretary is making what outsiders look upon as an attempt to accomplish one more industrial coup before he retires to his hunting, fishing, horses, and civic activities.

For Humphrey was a strong catalyst in the recent announcement by Hanna that it had acquired, together with Leo Model of New York and associates, the controlling interest in St. John d'el Rey Mining Co. in Brazil. Hanna has had a long-time interest in this company, which operates the largest gold mine in Brazil—and also owns what is believed to be the biggest, richest iron ore deposits in that country.

In January, Humphrey flew to Brazil with other Hanna executives. After seeing the property, he said: "It is probably the largest showing of mineral wealth sticking out of the ground anywhere in the world."

Observers who know Humphrey believe the Brazilian iron ore project will be his last attempt to put together a major industrial development. He helped form National Steel and Consolidation Coal. In the 1940s he joined with Jules R. Timmins, president of Hollinger Consolidated Gold Mines, Ltd., to form Iron Ore Co. of Canada and develop the huge, rich iron ore deposits along the Labrador-Quebec border. Success of that venture is a tribute to its timing.

• **The "Right Time"**—The Brazilian move is reminiscent of the Labrador transaction. As in Labrador-Quebec, the St. John d'el Rey ore deposits have been known for years. Development has been postponed by the costs involved before enough iron ore can be brought out for economical exploitation—probably a new railroad, new port facilities, power equipment.

Humphrey has not committed himself irrevocably. He said recently, "It would have been ahead of time to develop the Brazilian deposit earlier. It has been known, but now many factors have changed, including an increase in the demand for iron ore at home and abroad along with the exhaustion of certain deposits. We are not sure now whether the time is right, but we are studying it."

It will surprise many if conditions aren't right. It's likely that Humphrey wants to add this one last monument to his corporate success. END


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In Labor

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Teamsters' Defender in Hoffa Case Appointed Monitors Board Chairman

The three-man board of monitors of the Teamsters has a new neutral chairman—Martin F. O'Donoghue, an attorney who defended the union in the legal action that led up to the establishment of the board.

O'Donoghue, general counsel of the Plumbers, opened the IBT court fight for approval of James R. Hoffa's election to the union presidency. Later, an injunction that barred Hoffa from office was lifted when 13 rank-and-filers withdrew their opposition to him and the union accepted an order to operate under overseers.

There were some raised eyebrows at O'Donoghue's appointment to succeed Judge Nathan Clayton, who resigned. It is significant, however, that the Plumbers' general counsel is close to AFL-CIO Pres. George Meany, who led the federation fight to force the Teamsters to clean up—or get out of AFL-CIO.

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Goldberg Suggests Labor Heed Its Own Ethics, Not Management's

Arthur J. Goldberg, special counsel to the AFL-CIO and the Ethical Practices Committee, this week indicated union spokesmen may veer away from finger-pointing at management's alleged sins. Goldberg said questions concerning management ethics are "irrelevant to labor's concern with this problem."

His remarks, at the annual luncheon of the Workers Defense League, may point to some disagreement within the committee over ways to enlist public support for fending off strict legislative controls (BW—May10'58,p91).

Goldberg plumped for "maximum disclosure in all areas of union operations." **But he also warned that legislating against corrupt practices might tempt unions "to let up on voluntary action" to police themselves.**

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Fence-Mending Teamsters Forge Alliance With 60,000 in Office Employees Union

The International Brotherhood of Teamsters last week negotiated a mutual-aid pact with the Office Employees International Union (AFL-CIO) and announced progress toward ending a long feud with another federation union, the United Brewery Workers.

The Teamsters agreement with the OEIU calls for joint organizing in areas of mutual interest, particularly among white-collar workers in industries in which IBT is active. Leaders of the 60,000-member office union reported to their membership that the "assistance pact" should "result in tremendous organizational strides."

MORE NEWS ABOUT LABOR ON:

• **P. 42 Other Industries Are Watching Auto Bargaining Closely.**

• **P. 46 Labor Setbacks in Supreme Court.**

Meetings between IBT and Brewery Workers representatives are seeking "ways of developing mutual cooperation" in bargaining with the United States Brewing Foundation and multi-plant employers with whom both unions have contracts. **If a working agreement can be reached, an IBT-Brewery Workers feud dating back to the turn of the century will be ended.**

Meanwhile, IBT and AFL-CIO's Retail Clerks—enemies in the past—put aside differences to negotiate a new contract with Montgomery Ward & Co. this week. Leaders of the unions said the cooperation ushers in "a new era of union progress in retailing."

The details of the IBT-OEIU pact and the negotiations between IBT and the Brewery Workers and Clerks are not so significant as the probable IBT strategy behind them. Under James R. Hoffa, the truckers' union—expelled from AFL-CIO on ethical practices charges—is quietly making friends and alliances.

The OEIU pact is the seventh. Others are with the Machinists, Upholsterers, Meat Cutters, Carpenters, Operating Engineers, and Laborers.

It's no secret that the Hoffa-led Teamsters is biding its time for a bid to return to the House of Labor.

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Arkansas May Become First State To Outlaw Make-Work Practices

Arkansas was one of the first states to bar the union shop and other forms of compulsory unionism when it adopted a "right to work" law in 1947. Now a campaign is under way to make it the first state with a "freedom to hire" law against featherbedding and make-work practices.

Signatures are being collected to enable a constitutional amendment to be placed on the ballot for the fall's general election, declaring:

• **Featherbedding practices are contrary to the public policy of the state.**

• **No employer may be required to employ a greater number of persons than the employer deems necessary.**

The proposal would empower state courts to "enjoin any person, association, or corporation attempting, directly or indirectly, to require, induce, coerce, or compel" an employer to hire unnecessary workers or to enforce limits on the amount of work done.

The campaign for signatures—40,000 are needed—is being conducted by the Committee for Industrial Progress of the Associated Industries of Arkansas, Inc. The chairman is former Gov. Ben T. Laney, who was in office at the time the "right to work" law was passed. **Laney says the new law would help attract industry into the state.**

It would assure employers that they "would not be subjected to any type of coercion that would interfere with the proper management of their business," Laney said.

Waiting for Detroit's Decisions

● Industries facing contract talks hope Big Three auto companies can hold firm against "immoderate" concessions.

● Detroit settlement won't necessarily set a pattern, but could have an important psychological impact.

● Some industrial relations men believe wage moratorium "unrealistic," urge quid-pro-quo approach.

A state of suspense pervades collective bargaining outside the auto industry this week. What happens when contracts expire in Detroit will exert a strong influence on negotiations in other industries. The big question in management offices across the country is not whether new upward pressure will be applied on wages, but how much pressure—and when it will come.

Wage negotiations are under way or about to open in many industries. In most, company executives worried about a new pay-hike spiral are counting on the automotive Big Three to stand firm against "immoderate" concessions. That is, they are basing their own bargaining plans on the hope that the auto companies won't go beyond what they committed themselves to give in an offer to extend present contracts to June 1, 1960.

• **Same Offer**—At midweek, the Big Three showed no signs of substantial changes in their offer of at least 14¢ in hourly increases over the next two years, even though the United Auto Workers had softened its demands in preparation for down-to-the-deadline bargaining.

I. Bargaining Calendar

Meanwhile, in other industries:

• UAW prepared to open negotiations with International Harvester for a new contract covering 35,000 employees in 38 plants, parts depots, warehouses, offices, and other installations. In the next two weeks, UAW will also begin bargaining with Deere & Co., Caterpillar Tractor Co., and the Allis-Chalmers Mfg. Co. The union's demands covering 100,000 workers in the industry are about the same as those in auto manufacturing, so Detroit developments are being watched closely.

• The United Rubber Workers will begin bargaining for a "substantial and adequate pay increase" next week, first with B. F. Goodrich Co., and then with Goodyear Tire & Rubber Co. Negotiations with the other two of the Big Four—Firestone Tire & Rubber Co. and U.S. Rubber Co.—will come later. In addition to more pay, the union wants "necessary pension and insurance improvements." It turned down an industry plea for a wage moratorium.

• The United Cement, Lime & Gypsum Workers has threatened a strike against cement producers—a second national tie-up in a year—unless the companies top an "unsatisfactory" 8¢-and-fringes settlement with one of the union's locals in LaSalle, Ill. Pay is not the only issue. The international wants broader-based bargaining, to allow national pressure for tougher settlements.

• In the oil industry, independent unions seeking substantial economic gains from major companies are running into strong resistance; rejecting a demand for a wage-fringe "package" estimated to cost 22¢ an hour, Standard Oil of Indiana said "nothing is economically justifiable" this year.

• In the West Coast pulp and paper industry, the Pulp, Sulphite & Papermill Workers and the Papermakers & Paperworkers, sister unions in AFL-CIO, reached an agreement with an association of 44 mills to extend present contracts indefinitely. The unions originally asked for wage increases for the 20,000 workers involved; they waived gains "in the best interests of the industry" when employers agreed that pay talks could be reopened this fall if economic conditions improve. In an allied industry, the International Woodworkers waived wage talks this year, but the rival Lumber & Sawmill Workers refused to give up demands for 30¢ wage-fringe gains.

• The National Maritime Union asked Atlantic and Gulf ship lines for "substantial" raise and overtime concessions, longer paid vacations, improved work conditions "including better food," and other gains. NMU agreements with the ship lines terminate June 15. The union is making similar demands on Great Lakes lines.

II. Management's Attitude

The Detroit settlement, when it comes, will not necessarily set a pattern for other industries, but it will affect farm equipment and rubber bargaining if it comes in time. In other areas, its impact is likely to be more psychological than direct.

A lively conference sponsored by the American Management Assn. in Chicago underscored that two weeks ago. Company personnel officers met to consider a broad range of topics from the bargaining outlook to prospects for labor legislation—but the focal point of their interest was on bargaining and, particularly, on the contract talks in Detroit.

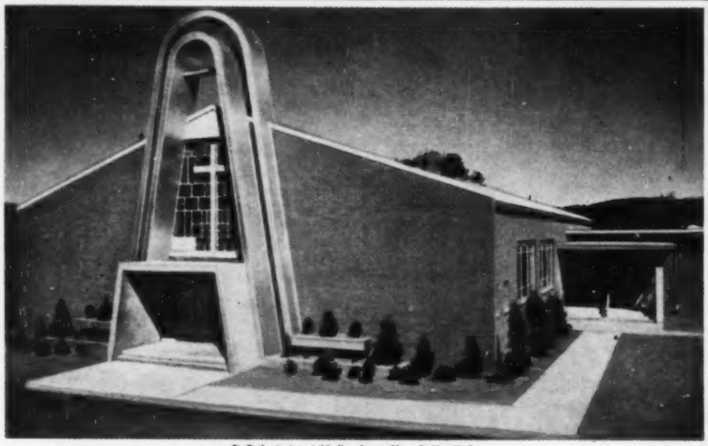
• **Auto Situation**—The industrial relations experts present were in general agreement that UAW doesn't want an auto strike and is serious in its renunciation of its "no contract, no work" policy. But, they added, the auto union's Pres. Walter Reuther will have to curb the militance of "hot-headed" locals whose wildcat stoppages could force an unwanted auto industry walkout after June 1.

They agreed, too, that while the companies now have a strong bargaining advantage, it is one that will become less potent week by week if UAW can keep bargaining technically open—but stalemated. The auto industry's position will be weaker, and UAW's more strategic, as the summer advances toward the timetable dates for the start of work on 1959 models.

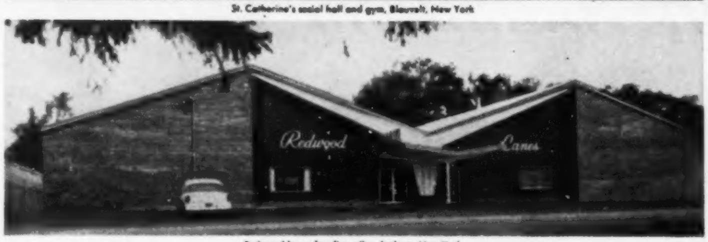
• **Realistic Approach**—And, with some dissents, they agreed that no matter how desirable a moratorium on wage increases might be, it would be "wholly unrealistic" to expect unions to forego raises voluntarily as an anti-recession measure. William E. Umstattd, president of the Timken Roller Bearing Co., was among those who made that point. Talk of freezing wages in most industries should be consigned to the ash heap, he said. But he added a point highly important in 1958 bargaining, and one supported by others at the AMA conference.

While management in many instances cannot escape wage increases in bargaining this year, it can take a positive approach to cost controls because of its favorable negotiating position. Charging that up to 15% of a worker's time is now wasted, Umstattd and others called for more quid-pro-quo bargaining in 1958. If hourly wages are increased despite the recession, cuts should be made in some costly fringes that provide for pay for unproductive time—coffee breaks and wash-up time, for instance.

There should be more tough and realistic bargaining, less negotiating on a "historical, hysterical, and negative" approach, designed mainly to minimize union concessions, conferees agreed. END



St. Catherine's social hall and gym, Blauvelt, New York



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Worker Can Sue...

. . . unions for damages if he is prevented by force from working, or is wrongfully expelled from union.

Unions this week suffered the hardest blow they have received in years at the hands of the U. S. Supreme Court. In two decisions with wide implications—both decided against unions by convincing 6-to-2 votes—the high court ruled:

• Employees prevented from entering a plant to work by force or threats of force from pickets may sue the union in a state court for loss of wages and substantial punitive damages (UAW vs. Russell).

• A worker wrongfully expelled from a union may sue in a state court for reinstatement and damages caused by his expulsion (Machinists vs. Gonzales).

The court rules that such state suits and money awards are not barred by the Taft-Hartley Act—even if the union conduct also violates the federal act. In both cases, the court says that unions are liable to such suits by individuals because the federal law has not preempted the field nor destroyed common law rights of action for damages.

• **Major Precedents**—Both rulings are major precedents in the field of labor law. The UAW case, because it imposes union liability in strike situations, is certain to mean more headaches for unions and cost them more money.

No one is saying that unions will now hesitate to strike—though the dissenting justices raise the possibility—or that conduct on picket lines will suddenly become more restrained as a result of the decision. One veteran labor attorney points out that "mere legalisms won't decide union strike decisions or strikers' conduct."

• **Impact on Unions**—There is no denying the heavy financial liability the Supreme Court says may now be imposed on an offending union by a local judge and jury. UAW, for example, faces 29 pending damage suits totaling about $1.5-million, all arising out of the same strike and making the same general claims as the one upheld by the court this week.

In the hands of 48 different state jurisdictions, with varying local attitudes toward unions, damage actions by individual workers will add new dangers to picketing for unions. In effect, local juries and judges—wholly outside the framework of the Taft-Hartley Act—will now play a major role in regulating union conduct. END

In Management

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Schine Can't Unload Closed Theaters; Separation Delay Asked for Loew's

The Schine chain of motion picture theaters is having trouble complying with a court order requiring it to sell 39 of its theaters. Under the terms of the 1949 decision, the prospective purchasers must agree to use the buildings as movie houses, and Schine claims that no one will buy the property.

To dramatize its case, **Schine chose 14 closed theaters in Maryland, Ohio, and upstate New York and last week put them up for auction. By deadline time not a single bid had come in.**

And **Loew's, Inc., may not have to get rid of its theater subsidiary for a while.** The company's court-appointed financial advisers told a U.S. district judge in New York that there was "no likelihood" that the managements of the parent company and the subsidiary could come to an agreement on division of assets or liabilities. They recommended, over the objection of federal attorneys, that the ordered separation be postponed.

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Outsider Wins Greeting Card Company After Founders vs. Management Row

After a long battle between the founders and present management of United Printers & Publishers, Inc., of Joliet, Ill., outsider Louis J. Berkman—an Ohio financier and friend of the "Founders Group"—has emerged with control of the greeting card company.

The group had sought proxies and a court injunction to block the acquisition by United of three Canadian greeting card companies owned by Grant Gillam, director and controller of United. The acquisition would have cost United 150,322 shares of stock.

Then Berkman entered the picture. His proposal formed the basis for the final court-approved settlement of the controversy. Under the settlement, **United will buy the three Canadian companies for not more than 90,000 shares.** Gillam will then sell these shares to Berkman, and will leave United's board. Berkman also will buy 28,000 shares owned by A. C. Allyn, Inc., and Arthur Allyn—chairman of A. C. Allyn—also will leave the board.

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Half School, Half Job Deal Is Baited To Lure Grads Into Science Teaching

At least a score of New England companies will put high school science teachers into their labs on a full-time basis next fall. **They will be cooperating with the New England Council, which is using a $60,000 grant from the Ford Foundation to expand the "Lexington Plan" originated by Arthur D. Little, Inc. (BW—Sep. 8'56,p132).**

The setup works like this: Science majors who think they would like to teach are hired—fresh out of college—in two-man teams. One teaches in a local high school one semester, while the other works as a scientist in a cooperating company. For the second semester, the two switch jobs. The man is paid by whichever boss he is working for at the time, and spends the summer on the company payroll—whether he is in the lab or at college picking up education credits.

After three years, the teacher-scientist makes his choice: teaching or industry. To help nudge him into teaching, the rules say he can't go to work for the company he's been with during the program.

In addition to the Lexington Plan, NEC will use the Ford money for audio-visual aids, plant visits, and guest teachers for secondary schools.

MORE NEWS ABOUT MANAGEMENT ON:

• **P. 48 Decision in Consolidation Coal case threatens deferred pay plans for executives.**

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Management Briefs

Businessmen had better take another look at **employee "code of conduct" rules,** E. F. Ohrman, Allis-Chalmers Mfg. Co. labor relations director, told an American Management Assn. conference in Chicago. Frequently, the rules include antique restrictions that are no longer needed—or enforced. It's better to revise the rules regularly, Ohrman said, than to risk discipline troubles by "overlooking" certain regulations and expecting others to be followed.

Seven stockholders of **Harbor Plywood Corp.** want the company to liquidate its assets. Harbor just sold some property in western Washington for around $17-million, and the stockholder group now wants Harbor to get rid of its remaining $30-million in assets and divide the proceeds among the shareholders. Even though the group represents less than 0.5% of the stock, and the company is effectively controlled by Chmn. Norton Simon, the dissidents want their proposal on the agenda at the July 10 annual meeting.

F. L. Jacobs Co., the Detroit automotive parts maker, has gone on a diversification binge. Last month Jacobs sold its Eicor, Inc., electronics division, to **Scranton Lace Co.,** and picked up a majority stock interest in Scranton. In mid-May, Jacobs announced the acquisition of **Symphonic Electronics Corp.,** phonograph manufacturer. And just this week Scranton picked up, for more than $12.5-million, **Hal Roach Studios, Inc.,** producer of television film series, which will soon expand into feature theater films.

John C. Sharp, president of Hotpoint Co., a General Electric Co. appliance division, has resigned. His action reportedly arose from his feeling that the autonomy of the division under GE's decentralized system was being eroded under what he believes is a new "recentralization" policy.

Court Has Its Say on Extra Pay

● In a pioneer case involving Consolidation Coal Co., a federal judge has ruled the companies can't figure bonus compensation for the brass on the basis of stock prices.

● A stock's behavior in the market isn't an adequate gauge of how well an executive has done, the court held.

● The decision is sure to go on to higher courts. The question meanwhile: How wide will its impact be?

Does the market price of a company's stock bear any reasonable relation to the value of an employee's services? This month, a federal court in Cleveland said "no"—and threw a possible roadblock up before a growing number of corporate compensation plans based on deferred payment of stock or its equivalent.

In a decision arising out of a stockholder suit against Consolidation Coal Co. (formerly Pittsburgh Consolidation), District Court Judge Charles J. McNamee ruled that Consolidation's deferred compensation plan, tied to a market price for stock after an individual's retirement was "irrational" and "compensated executives in excess of their worth to the company."

As Judge McNamee noted in his decision, the case is a "pioneer" in the area of deferred compensation. It is certain to be appealed—and to invite scores of other stockholder suits. Meanwhile, compensation experts are already hotly arguing its effects. Some suggest it could invalidate not only "phantom stock" plans such as Consolidation's—where no certificates ever change hands—but also a greater number of other deferred payment arrangements, including those in which actual stock is delivered.

• **Mechanics**—Consolidation's plan operates like this:

As his bonus, or share in the company's profits, the executive is assigned a certain number of "units," each with a dollar value equivalent to the current market price of Consolidation stock. When the company pays dividends, each unit receives a dividend equal to that paid on one share of common stock. If there's a stock split or stock dividend, his units are increased proportionately.

In addition, after he retires, the company pays him the difference—if any—between the unit's originally assigned value and the market value of the stock at that time. He can choose a date within two years after retirement on which to base the price.

• **Paying Off**—As an example, take a hypothetical officer awarded 1,000 units in 1947. If he retired in 1957 and selected a date early this year, he would have received a total of about \$125,000—most of it to be paid in installments over 10 years. Of that, some \$39,000 would represent dividends paid over the intervening years; the rest would be the difference between the \$18,000 his units were originally worth and the \$103,000 the equivalent shares of Consolidation stock would have brought on the date he selected. To meet the obligation, the company may sell stock authorized for that specific purpose. And this would be only the officer's bonus for 1947. Presumably, additional units would have been awarded in subsequent years.

Of course, the executive gets nothing at all if the company doesn't pay dividends or the stock doesn't increase in value. But since he can collect extra compensation only if the company flourishes, he has a strong incentive to make it do so.

Consolidation was one of the first companies to adopt this so-called "Management-Unit Plan," with ultimate compensation based on a rise in stock value. Since then, numbers have followed. But the plan has never before been challenged in the courts.

• **Judicial Reaction**—In his decision against this arrangement, Judge McNamee declared: "The market value of a stock is an unreliable index of the value of services rendered." Market price, he added, is governed by too many factors unrelated to the employee's performance: the general state of the economy, investors' confidence or lack of confidence, the cost of money, supply of stock available, inflationary or deflationary trends, the tendency of the market to discount the future.

The Consolidation plan puts no limit on the amount an employee may receive, the court pointed out. Said the judge: ". . . In times of prosperous business and rising market prices, the company may be obligated to pay retirement benefits in amounts grossly disproportionate to the value of services and which constitute waste or a misuse of corporate funds."

Judge McNamee also held that the system gives the employee all the financial benefits of stock ownership with none of the risks. Moreover, he said, a stockholder selling at a profit gets that profit from another purchaser on the open market, while in the Consolidation plan "a unit holder's gains are paid by the corporation and constitute an addition to the cost of operating the business."

• **Variable Results**—McNamee argues not only that a bonus might be "excessive" as a result of market action, but that the results are thoroughly capricious.

The value of a long-term employee's units might be wiped out by a sudden market plunge, while a short-term employee could pick up a windfall on a special circumstance rise. An officer who received 1,000 units as his 1947 bonus at an assigned value of \$18,000 would have received a terminal settlement of \$86,000 in February, 1956; \$121,000 in early 1957, or \$77,000 in late 1957, as stock prices fluctuated. This, the decision implies, relates final compensation far more to the fortuitous timing of retirement than to any value as an employee—either for the year the award is granted or even successive years.

Judge McNamee also took issue with the plan on the grounds that stockholders had neither been informed of all details nor authorized it specifically. Though he ordered the company not to make further agreements or issue more units under the plan, he did not call for return of benefits already granted. But this, he implied, was only because the particular individuals named in the suit had not come under the plan—and in effect invited further stockholder suits against other officers of the company.

• **What It Means**—Meanwhile, corporate attorneys have been scurrying to figure out just what the decision is likely to mean. A number of them insist it is applicable only to so-called "phantom stock" plans such as Consolidation's, and not to plans in which actual stock is delivered.

In these latter plans, the bonus is in a number of shares, to be held by the company until retirement, with dividends paid in the meantime. In this case, according to a lawyer for a company with such a plan, "The only cost to the company is the original value of the shares when they are awarded. Since, for all practical purposes, the stock is issued and outstanding, any appreciation in value to the indi-

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vidual comes only when he finally sells his stock on the open market. In the Consolidation case, the final money is coming from the company's treasury."

Others maintain that if the amount ultimately received must bear a provable relation to the value of the employee's service at the time of the original award, the decision would affect any plan in which ultimate value depended on stock price.

• **Discord**—However, V. Henry Rothschild, New York compensation expert, says flatly, "This is the most important decision in executive compensation in more than a decade." He also argues:

"There's no question that property rather than cash can be awarded as a bonus: The stock bonus is one of the oldest forms of compensation. But the amount the company pays is what it puts in at the beginning, not what the man takes out at the end. The principle should be identical whether you hand the man the stock immediately, put the paper away for 20 years and then hand it to him, or, as was done at Consolidation, put the stock away to be sold on the market later with the proceeds going to the individual."

There are some who claim, in fact, that plans of the Consolidation type are less costly to a company than those where actual stock is delivered. For one thing, the "dividends" paid "units" are charged off as an operating expense and come out of gross before taxes, not net after taxes. For another, when the company finally sells stock to pay the deferred bonus, it pays only the difference between the original value and the final amount.

• **Alternative**—In any case, with plans of this type under a legal cloud for the moment, several companies indicate they will start looking for alternatives. One might be the plan recently initiated by du Pont.

This is a combination of "dividend units" and stock options. Each "dividend unit" would entitle the beneficiary to receive the same dividends paid on a share of common stock until his death or his 85th year, whichever comes later, but there is no additional terminal settlement in either stock or cash. As accompanying options are taken up, dividend units are proportionately reduced. If the executive chooses not to exercise his options, he still has some assured income for himself or his estate. At the current dividend rate of $6, a 55-year-old executive with 1,000 dividend units would receive approximately $6,000 a year for 30 years—or a total of $180,000.

The Consolidation decision indicated no objection to such units pegged to annual dividends, as long as no final settlements were based on market price of stock. **END**

In Marketing

MORE NEWS ABOUT MARKETING ON:

• P. 56 Federated Becomes the No. 1 Department Store Chain.

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Pay-TV in Bartlesville Didn't Pay, So Telemovies Will Halt Showings

Bartlesville, Okla., is hauling down the banners that proclaimed it "the world's first Telemovie city." Video Independent Theatres, Inc., will suspend its cable motion-picture program, Telemovies, on June 6. **This winds up, for the time, at least, what many viewed as a key test of the workability of a pay-TV system.**

Telemovies' closed-circuit showings of first-run motion pictures started last fall (BW–Sep.7'57,p43). Since it whacked down the original charge of $9.50 a month to $4.95 in February, reports Henry S. Griffing, Video president, new subscribers have been coming in at the rate of 30 a week. The total is now nearly 800, more than Telemovies started with.

But this isn't enough. At present costs, it would take more than 1,600 subscribers to break even. TM's losses reportedly have run $10,000 a month in recent months.

Undoubtedly Telemovies' toughest problem was competition from free motion pictures over regular TV channels. But Griffing has learned other things, he says. He has swung around to the view that a meter that allows subscribers to pay for pictures individually is the answer, rather than a flat monthly charge. Operating costs must be cut. And TM must broaden its offerings. It had, in fact, already shifted to music and a weekly art film on one of its channels.

Griffing hopes to get going again when an adequate meter is available in quantity and when the glut of pre-1948 motion picture releases on TV has subsided.

Trade talk has it that other wired systems may take a stab at pay-TV. Griffing noted that motion picture producers had cooperated heartily. And sports promoters are still yearning to be cut in on pay-TV.

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Cloth-Like Paper Used in Tablecloths, Aprons; Dresses May Be Next

Paper is out to conquer new fields.

Last week Scott Paper Co. put on a show for its Dura-Weve, a cloth-like material made of a layer of Avisco rayon scrim sandwiched between double plies of paper. Aprons, baby bibs, and tablecloths, manufactured by Allendale, Inc., New York, are already on the market. Other Dura-Weve items soon will be ready.

Scott reports that Dura-Weve can be washed, but it expects the consumer market will go for the throw-away factor of its material. **The paper is strong enough to stand up under "repeated" use.**

At retail, two barbecue aprons, packed together, sell for about 69¢; large tablecloths for 59¢, and medium-sized cloths for 39¢. Half aprons bring 39¢ for two or 59¢ for three.

Scott's announcement followed hard on news from J. C. Penney Co. that **the big store chain is testing paper fabrics for possible use in dresses.** Paper garments have already survived successful trials in industry and hospital use. The dresses will withstand rain for short-term wear, Penney laboratory chief P. J. Fynn stated.

A major problem is how to join the fabric efficiently. But low-cost production is in the cards, Penney feels.

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$16-Million Home Furnishings Mart Is Slated for Atlanta Area

While Chicago still strives to hold its position as the one central market for home furnishings, new regional markets continue to crop up.

The latest project is a $16-million regional merchandise mart for Atlanta. Last week, a new organization headed by Robert M. Holder, developer, said construction on the Southeastern Merchandise Mart, 20 miles from the city, will start in October. Completion date is set for the fall of 1960.

The mart will have 1.5-million sq. ft. of space; it will include an 11-story main building, a coliseum, a theater, parking space for 10,000 cars—and a heliport.

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Tufted Carpets Pull Even With Woven; All-Wool Clings to Lead Over Fibers

The U. S. carpet industry stepped up production and shipments in 1957, but not enough to increase output per family. **For the third year in a row, production per family has stuck at 2.3 sq. yd.**

Figures from the American Carpet Institute's 1958 roundup indicate that tufted carpet has pulled abreast of woven for home use, and may have surpassed it. Woven broadloom output dropped to 56.4-million sq. yd. last year from 1956's 64-million. Tufted swooped up from 54.4-million to 69-million in 1957. The tufted figure, though, includes an estimated 13-million sq. yd. for auto and plane use.

All-wool carpet hung on to its edge over other fibers, but by a smaller margin. Last year all-wool accounted for 44% of the total against almost 51% in 1956. Man-made fibers jumped from 32.8% of total output to 40%.

The year disappointed the carpet makers—at least those that report figures. Publicly owned companies' net sales of $304.7-million were down considerably from 1956's $324.1-million, in spite of the fact that estimated dollar value of all manufacturers' shipments topped 1956 slightly. Net income for the publicly owned companies sagged to $8.7-million from $13.5-million in 1956.

The housing slowdown probably cost the industry some sales. **More important, probably, is the slowdown in new household formation** (BW–Feb.1'58,p47). Newly married couples purchase rugs at almost three times the rate of the average family.

Strategy: Shoot for Top Spot

Federated Takes Top Spot Among Department Store Chains

All Figures in Thousands of Dollars	Rank '57	SALES 1957	Rank '47	SALES 1947	PROFITS 1957	PROFITS 1947	Approx. No. of Units
Federated Dept. Stores, Inc.	1	$635,592	5	$265,412*	$24,974	$11,859*	41
Allied Stores Corp.	2	632,814	1	392,199	12,351	13,623	84
May Dept. Stores Co.	3	533,657	2	358,013	20,222	17,231	30
R. H. Macy & Co., Inc.	4	454,166**	4	285,083*	6,850**	5,362*	33
Gimbel Bros., Inc.	5	369,406	3	301,246	7,657	6,222	23
City Stores Co.	6	263,747	7	154,796	3,340	4,670	59
Associated Dry Goods Corp.	7	236,993	8	142,297	7,135	4,952	24
Marshall Field & Co.	8	219,012	6	211,403	7,577	10,557	8
Mercantile Stores Co.	9	153,994	9	113,013	3,996	5,159	66
Hecht Co.	10	104,701	10	73,006	3,386	3,514	12

*Year ended Jul. 1, 1947. **52 wks. ended Feb. 1, 1958

...ated next to Sears as a favorite retail

and Stay Flexible

For the first time, Federated Department Stores, Inc., last year became the top-volume corporation among the country's major department and specialty store chains. As the table shows, its sales outstripped the other top 10, including Allied Stores, Inc., which has more than double the number of Federated's store units.

That still leaves Federated pretty far behind national chains such as J. C. Penney Co. and Sears, Roebuck & Co. —the mass merchandisers whose formula depends upon hundreds of fairly stereotyped outlets aimed at middle-to-lower income customers. But in its own field, Federated stands out as a postwar phenomenon.

• **Opportunity Knocks Twice**—Partly, this results from the rapid growth in all retailing in the past decade based on (1) boom conditions and (2) the spectacular development of suburban areas.

Combined, these factors handed department stores their greatest opportunity since the early 1900s. Yet, the fact that the big department store operations have been converted into nationwide chains has been somewhat obscured by statistics that show department stores losing out in percentage of total sales. For instance, Commerce Dept. figures give department stores more than 8% of total retail sales before the war, but only about 6% in the postwar boom.

One reason, of course, has been the shift in buying habits and the inroads of supermarkets and discounters. Beyond that—unlike almost any other period—this has been a hardgoods boom, where department stores have failed to carve themselves a very large niche (BW—Sep.14'57,p43).

• **New Look**—Now, there are signs—perhaps too tentative to be called a trend—that the economy is moving into a period where softgoods will regain their position. Standard & Poor's analysis of retail conditions hints at this, and investment counselors such as E. F. Hutton & Co. are advising investors to take a new look at the retail fields.

In addition, indications are that the main street merchants are regaining some of their power, after an era of mass selling dominated by brand merchandising through national media (especially with the advent of television). As Fred Lazarus, Jr., Federated chairman, puts it: "The trend, I think, is away from department stores being simply manufacturers' agents—back to the time when the merchant was prince."

• **Stress on Local Selling**—Certainly, manufacturers are putting a new emphasis on local selling. And the major department chains have never been in a better position to take advantage of it.

This is particularly true of Federated. Under Mr. Fred (as he is known in the trade) and more recently under the presidency of his son Ralph Lazarus (cover), Federated has put together a highly profitable group of big store units whose financial record is the envy of competitors and the pride of the company's Cincinnati-based central office.

Since 1945, profits have gained, both in total and per share—despite three postwar stock splits. Return on investment, a key figure in Federated's thinking, has kept pace, at a time when other retailers were seeing it shrink. Today, investment companies rank Feder-

FEDERATED'S finance chief John Lebor (back to camera) huddles with Chmn. Fred Lazarus, Jr. (left) and Pres. Ralph Lazarus, in new Cincinnati offices.

Federated added Abraham & Straus' Babylon (Long Island) branch last October . . .

. . . Boston Store's Bay Shore branch in Milwaukee in March . . .

. . . Filene's North Shore branch (above) in Boston last September; and Sanger's Preston Road branch (below) in Dallas last July. More expansion is under way.

ated next to Sears as a favorite retail stock. In the past decade, its growth has come about from both expansion in old territories, amounting to some 56% of added volume, and entry largely through acquisition in new metropolitan areas.

• **Postwar Growth**—Before World War II, Federated was simply a holding company—still as loosely knit as it was when it was formed in 1929 by Lazarus in Columbus, Filene's in Boston, Abraham & Straus in Brooklyn, and soon after, Bloomingdale's in New York. The great advantage of this combine was the exchange of operating information and statistics through the Associated Merchandising Corp., which later served as a consultant office for buyers.

Acquisition of Foley's in Houston in 1945—coinciding with a migration wave—was the catalyst that forced the decision to transform the holding company into an operating company—with the various central store units as divisions rather than separate corporations. The purchase of Burdine's in Miami in 1956 put Federated into just about every region except the far Northwest.

I. How It Works

A department store, perhaps more than anything else and certainly more than other retail establishments, lives on personality. One route to big retailing is that of a Sears or a Penney, where the personality is a national one. The other is the one Federated took—assuming the advantages of bigness but retaining the individuality of each unit.

To achieve this, Federated has eschewed a rigid set of policies. About all you can dig out of headquarters is:

• Each operating unit must maintain the dominant store in its area: "We don't settle for second-best."

• Flexibility of operations—in merchandising, expansion, over-all management—must be the firm's theme.

• **Key to Success**—The dominant store idea grew out of the nature of the original Federated units. But it is the latter policy—flexibility—that has become the key to Federated's postwar success. In any big chain, the danger is over-control from central headquarters. This is especially true in department store operations, where local conditions play an important part.

Federated learned this lesson anew when it established Fedway, its chain of smaller department stores in the West. Management is still working on the problems brought out in this attempt at centralized control in a small but widely scattered department store chain (BW—Feb.5'55,p60).

In successful retailing, according to the Lazaruses, you can't divorce management from merchandising; and merchandising at department stores is a

host of decisions made at a local level. That may sound like a truism, but to Federated's handful of top bosses, it is a way of life. As Ralph Lazarus says, "We try to curb being an administrative agency. We are troubleshooters and we can objectively point out things that need emphasis."

• **Who Makes Decisions**—As a result, the presidents and general managers of the various divisions are, in truth, heads of nearly autonomous units, each with his own staff of buyers and merchandise managers. True, Associated Merchandising, with its staff of New York buyers, is available. But the decisions are up to local management.

Sidney L. Solomon, president of Brooklyn's Abraham & Straus, puts it this way: "In the end, the store makes the plans and takes the responsibility." For instance, it was A&S management—not Federated—that decided to battle Korvette's discount house prices when Korvette opened up an outlet opposite the A&S main store. It took no calls to Cincinnati to make that move.

Or take inventory policy. According to Ralph Lazarus, "We have no inventory policy as such—though today we have an emphasis." "We all agree," Solomon adds, "that we ought to be as liquid as possible. But as to how much we carry, that is up to us."

This doesn't mean that Federated buyers don't operate with open-to-buy positions. They do, but like all the chain's policies, they are flexible. "We insist," says Mr. Fred, "that buying be done for the customers and not to meet a set of financial rules."

• **No Formulas**—Throughout, it has been Federated's aim to avoid the legacy that it thinks many department stores inherited. The founders were great merchants, but the second generation moved out of operations and merchandising and became control management. That, plus the Depression, shifted retail management into the hands of controllers, whose main aim was not to take risks.

Because of this, Federated consciously avoids setting up any formulas for its local merchandising managers. This flexibility is evident in its postwar expansion. Initiation has come from local management—central headquarters simply approving capital outlays.

The upshot is a pattern of growth related entirely to local conditions. For example, at a time when branch store operations are in the spotlight, Lazarus in Columbus is adding 300,000 sq. ft. to its downtown store—and, so far as anyone knows, has no intention of building branches. Foley's has expanded in Houston and still has no branches—while shopping centers have popped up all around the city. Local management decided that Houston downtown had a long way to go before it reached its

limit. But when the time comes, it will be ready to move to the suburbs. The same is true of Shillito's in Cincinnati.

On the other hand, Bloomingdale's in New York was one of the first Federated stores to expand through outlying branches, but then switched to major renovation of the parent store. In Dallas, Federated owns Sanger's downtown, a full-line suburban branch, a limited-line branch store, and, in still another neighborhood, a small branch store specializing in children's apparel. Only local management, with the authority to initiate action, could have developed that pattern.

In the case of A&S, which embarked on a major suburban branch program after the war, it was fast-stepping local action that enabled Federated to snap up the neighboring Namm-Loeser property when that old-line department store gave up the ghost.

Not every division, of course, is treated the same—another indication of Federated's flexible policy. Burdine's, for instance, will get closer attention while it is going through Federated's "indoctrination" period. But even here, the new division president will be expected to develop his own merchandising strengths.

II. Why a Chain, Then?

If you try to pin down just what Federated central office contributes—besides an atmosphere that encourages separate units to put their organizations in order and expand through local initiative—a number of things stand out.

For one thing, the Federated idea was to amass the resources of the separate units to achieve the power that otherwise would be chopped up.

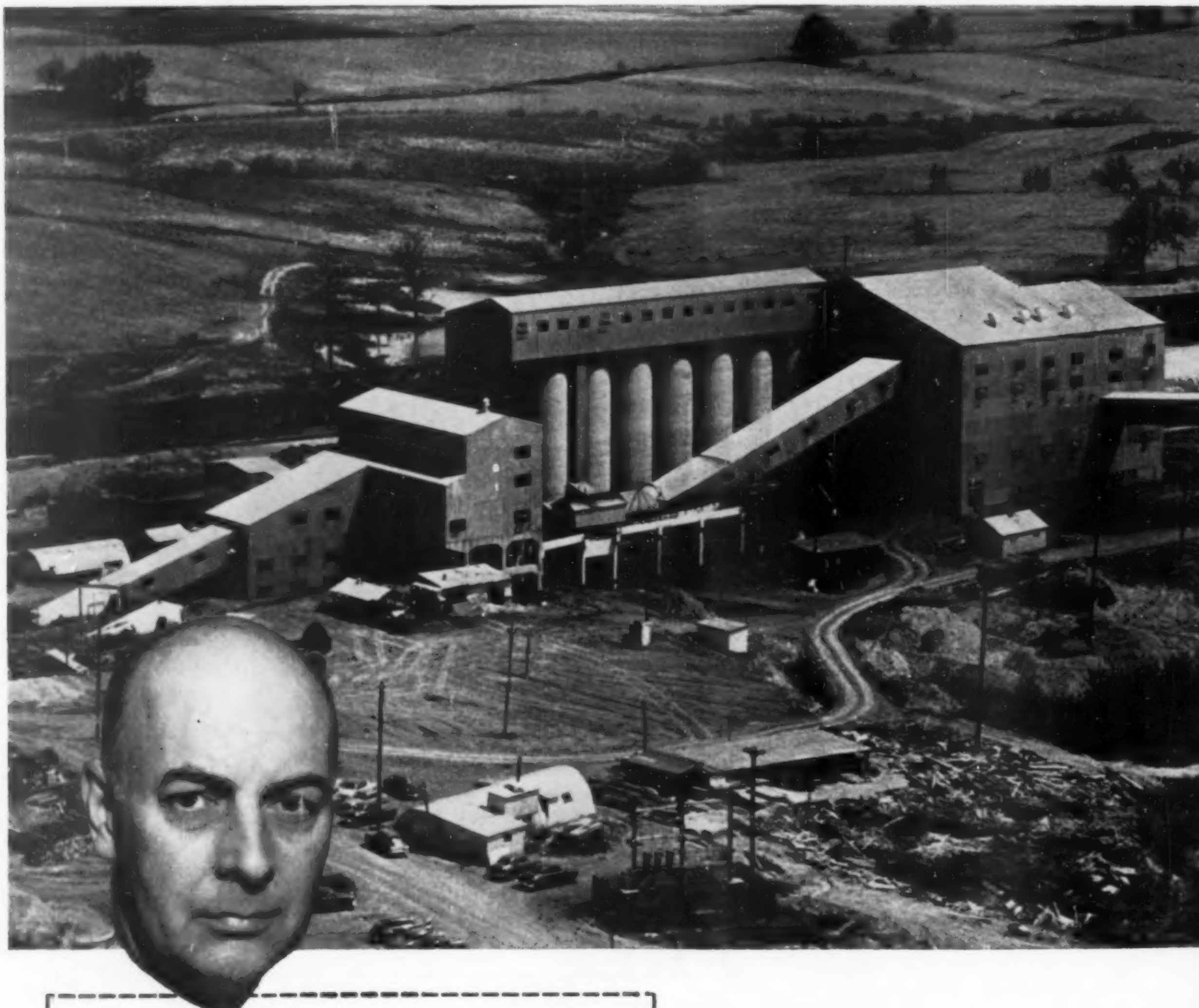
Financial management, from the beginning, has been the responsibility of the central headquarters. This may seem opposed to the philosophy of local autonomy. Actually, what it does is to relieve the divisions of the need to worry about where the money is coming from—leaving them free to tend store.

This was the one big release for the divisions that emerged when the central office was formed. From that time, as long as they met the high standards set by the over-all corporation, the divisions could count on the financial resources for their planning.

• **Money Specialist**—Under this system, Federated's divisions have a specialist in charge of money—John Lebor, vice-president of finance, whose job is to put Federated's money to work where it can make the biggest return. He has one guide that comes as close to a set rule as any in the company. That is, to convert as much of its funds as possible into merchandise.

This is the reason Federated owns little real estate, although it will buy

"Profit-squeeze puts new



Mr. John A. Garcia, Executive Vice President, Allen & Garcia Company, Chicago—
Consulting and Design Engineers—says:

"Engineering firms assigned responsibility for planning and constructing new industrial facilities must meet today's primary challenge head on. They must build plants and specify equipment that will ease the profit-squeeze. Everything they do must contribute to that end.

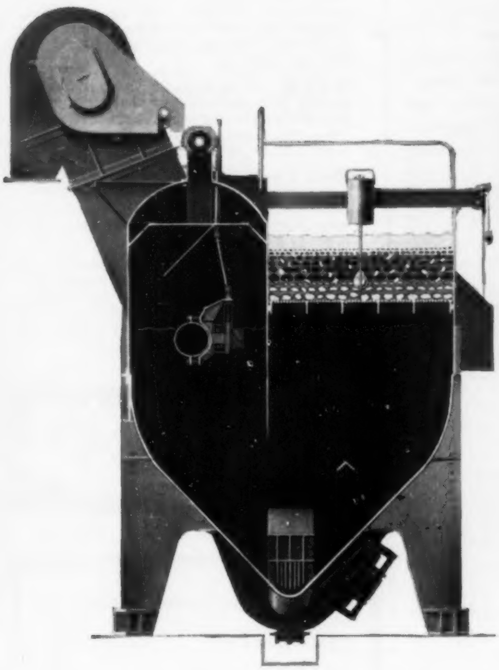
"Our clients in the coal, mineral and metal processing fields are increasing the wealth and strength of the nation by stepping-up production capacities. Their investment and future income must be safeguarded by applying broad experience and real foresight in designing, building and equipping new facilities."

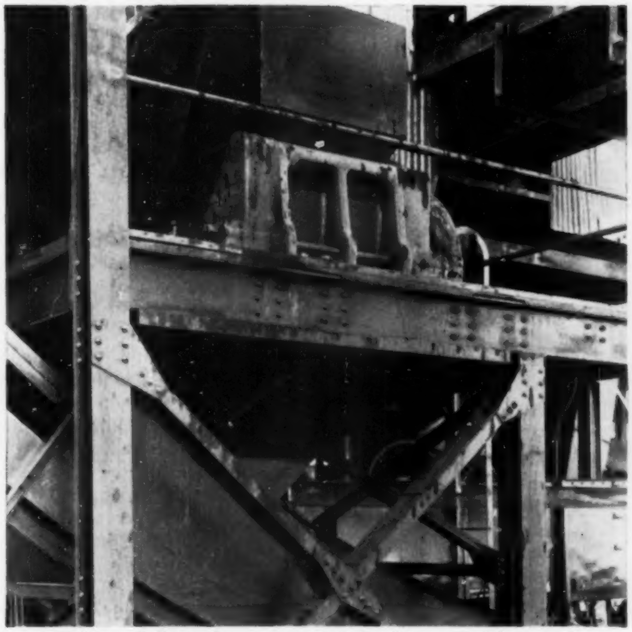
COAL must continue to play a vital part in our nation's expanding economy. New and modernized plants are being readied to meet the coal industry's forecast of 600 million tons by 1960.

Efficient, dependable Jeffrey equipment is a valuable antidote for rising costs in coal preparation. It does important jobs better, faster . . . contributes to lower operating costs and lower maintenance costs.

Orient Mine No. 3 of the Chicago, Wilmington and Franklin Coal Company, Waltonville, Illinois, employs the most advanced types of crushing, sizing, cleaning, dedusting and blending equipment. Allen & Garcia Company, after building record-breaking Orient Mines No. 1 and No. 2, were selected to design and build this ultra-modern coal preparation plant.

emphasis on efficiency"





Crushers: *Jeffrey offers a type and size for every sizing requirement. This is a 30" x 60" single roll crusher of the type specified by Allen & Garcia Company repeatedly since 1946 for coal preparation plants.*

Permaseal Idlers: *Give extra-long service on the toughest jobs with a minimum of maintenance. Double-diaphragm seals make certain grease can't get out to foul conveyor belts; dirt can't get in to damage bearings.*

Baum Jigs: *Provide a low-cost means of cleaning coal, separating fine and coarse sizes simultaneously, and recovering above 99.5% of the coal of a specified quality. Jeffrey air-operated jigs give exceptionally high capacity per unit of area, often ten times that of conventional plunger type jigs.*

It pays to team up with a top-flight engineering company

They are familiar with these Jeffrey products and will advise on their use. For specific information regarding any of them, get in touch with The Jeffrey Manufacturing Company, 960 North Fourth Street, Columbus 16, Ohio.

JEFFREY

CONVEYING • PROCESSING • MINING EQUIPMENT...TRANSMISSION MACHINERY...CONTRACT MANUFACTURING

store sites if, as Lebor says, "we can't develop the right kind of lease arrangement at a particular time." Federated's policy also is to sell a large portion of its accounts receivable to banks, while running the credit collection system in its own hands.

Beyond the central financial arrangement, Cincinnati also provides specialists on insurance, real estate, market surveys, and economic research.

• **Informal**—Actually, relations between divisions and headquarters are largely informal, but twice a year, each division formally reviews its plans for the next six months in what Ralph Lazarus calls "figure plans and a word plan." The word plan details strengths and weaknesses as each department manager sees them—with his own recommendations for improvement.

• **Clearinghouse**—Probably the biggest contribution of the central staff is the use of its facilities as a central clearinghouse of information. Statistically, AMC compiles the ratios and operating results by which all Federated stores can compare one another. These studies, detailed and pinpointed to specific locations, go a long way to maintain the standards of the Lazarus regime.

But at headquarters in Cincinnati, central research undertakes projects that apply to all the stores. One recent brainchild was Federated's revolving credit plan. Cincinnati launched consumer attitude surveys, analyzed its own records of credit histories, and came out with a formula to meet the needs of its customers who—it became obvious to local divisions—had outgrown older credit systems. Not every division uses the plan, but Mr. Fred says, "We'll be reminding them every six months."

In addition to such broad studies, the research department makes territorial and population studies for divisions. It has just completed a children's wear study that the divisions agreed was necessary because of the population's changing age structure.

• **Research-Minded**—This emphasis on research, in a business not noted for such a formal approach, is carrying over into what Federated calls a "customer preference program." It took two years to work out the details. Federated admits that as it stands the illustrated training program contains nothing that every successful merchant in the past didn't know instinctively. Now, Federated hopes to convey this merchandising instinct to younger managers who otherwise would have to spend a lifetime acquiring the necessary experience.

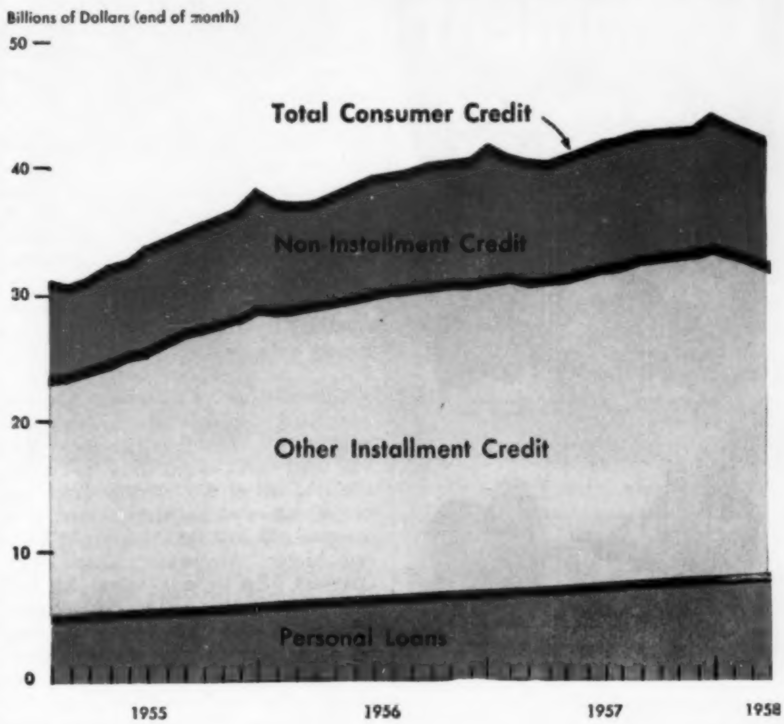
In the end, says Ralph Lazarus, about all Federated as a central organization can do is push the idea of profit—and particularly the return on the money used to make that profit—farther down into each divisional organization. END

FINANCE

It's Fewer Loans—Or Lower Bars

As "good" borrowers pull in horns, consumer lenders face dilemma—how far to lower bars to keep loan volume up.

Consumer Credit Outstanding



Data: Federal Reserve Board.

©BUSINESS WEEK

A well-dressed, middle-aged woman walked into the loan department of a Miami bank the other day and asked for a loan to help her switch her 1956 Chevrolet to a new Thunderbird. The loan officer said no. He explains: "We figured her payments at $144 a month, far more than she could afford."

Robert Guinsler, manager of a Household Finance Corp. office in Toledo, ticks off similar cases: A 22-year-old single girl, holding down a low-paying job wanted to add to her $1,500 debt; a married man with three children, earning $85 a week, wanted another loan even though he already had five outstanding obligations taking more than $160 a month.

• **Dilemma**—These examples of persons already overburdened with debt but seeking still more credit are becoming more common these days. That's the word from credit men in banks and finance company offices in 17 cities across the land, interviewed a few days ago by BUSINESS WEEK reporters. Rudy Binder, president of Wisconsin Consumer Finance Corp. sums up the problem this way: "Requests from the good borrowers are way down."

The result is that not all of the over-ambitious or debt-burdened loan applicants get the prompt turndown that was accorded the would-be Miami Thunderbird buyer—and that all of them would have received a year ago.

For the finance companies are faced with this cruel dilemma: With the "good" applicant holding back, the companies must either resign themselves to doing less business—or they must deal with poorer risks.

Even in this situation, not everything goes—as the Miami case and others like it make clear. But in most cities, lenders have eased credit requirements in the effort to drum up business—though they still insist they're not lending to borrowers who won't pay back.

• **Decline**—The reason why the finance companies are faced with this dilemma is apparent in the chart. Consumers are pulling in their horns—buying less, saving more, borrowing less, and repaying more. The Federal Reserve Board's monthly figures show that in February repayments on consumer installment debt topped new credit extensions—on a seasonally adjusted basis—for the first time since the Korean War. In March, repayments again outstripped extensions, by about $180-million. The willingness on the part of the finance companies to take on lower grade loans is partly due, perhaps, to the decline in the rates they pay for their own borrowings. They've pretty much held firm on the rates charged their own customers, and the fatter margin helps cushion potential losses from defaulted loans.

The chart shows one result of the slide in consumer buying—a turndown in consumer installment credit outstanding. In March, this total declined for the third consecutive month, falling $319-million to just under $33-billion. For the first quarter, the drop came to $1.1-billion, more than three times the decrease in 1957's first quarter.

One segment of consumer credit has moved against the tide—the personal loan category, which increased $20-million in March in a continuation of its long-term rise (BW—May4'57,p78). Most economists believe these cash loans will hold up even if the recession should worsen, since they usually represent either emergency borrowing or consolidation of a number of outstanding debts. But personal cash loans represent only a small part of over-all consumer credit.

• **Easier Terms**—It's the decline in other forms of installment credit that's worrying the lenders, and leading them in many cases to let down the bars. Generally, this takes the form not of reductions in interest rates, but of lower downpayments and stretching of repayments over a longer period—36-month terms are now common in most cities, and in a few areas 42-month terms have turned up. And borrowers whose credit standing would have brought icy stares a few months ago are getting loans today.

An official of a Cincinnati bank, which does a lot of auto financing through local dealers, comments: "We didn't as a policy take paper from a fellow who had a repossession record. Just the other day, we did." This is despite a 14% increase in auto repossessions in that city this year.

A Cincinnati finance company manager has this plaintive explanation for taking on marginal risks: "Look, I had a call from a dealer when we wanted to turn down one of his deals. He told me pretty clearly that if we didn't take that poor risk, the next 14 'good' deals would go somewhere else."

• **Regional Variations**—Some cities, of course, aren't so hard hit by the recession as others. But even in those

less hard hit, lenders find collections tougher and delinquency rates creeping up. Leonard A. Usina, president of two Miami banks and chairman of a third, says his banks' consumer credit business is up 5% to 7% over last year, but "we're even reviewing rejects with an eye toward working out good loans."

In such cities as Pittsburgh and Detroit, lenders will climb far out on a limb to make loans—though loan officers maintain they won't O.K. an applicant who seems "shaky." In Detroit, some finance company offices will lend to laid-off workers collecting unemployment benefits if their past record is good. In Pittsburgh, lenders are refinancing old loans with the understanding that they'll gladly stretch out payments on the new loan if the borrower runs into trouble. One finance company has refinanced 15% of its accounts, compared to a normal 2% to 3%.

• **Closer Check**—Paradoxically, credit men claim they're screening applicants more closely today than in a long time. The extra check might show that a person is a better risk than a quick appraisal indicates—as in the case of a marginal risk first turned down by General Motors Acceptance Corp., then accepted after it was found he had overlooked an old $130 savings account. Of course a closer screening might turn up an adverse factor similarly overlooked, such as a five-year-old repossession in another GMAC case.

Lenders say they are checking more carefully into the kind of work an applicant does—and seniority is no longer a key measure of risk. A Cleveland credit man says: "If a steno comes in with one year's seniority, it's likely we'd O.K. her on the basis that she'd be less likely to be laid off than the five-year man at an auto assembly plant."

• **Problems**—The easing of terms is not without its problems.

An increase in fraud and shady dealings on the part of both individual customers and retailers is plaguing the lenders. A Philadelphia used-car dealer is now facing trial on charges that he got people to buy new cars from legitimate dealers with bank loans and turn over the cars to him in return for $50 and a promise to pay off their loans when he sold the cars—and then, in 15 cases, failed to pay off the loans.

Lenders say the relaxation of terms is necessary to encourage consumers to spend; whether this will result remains to be seen. Dr. Marcus Nadler, economist for the Hanover Bank, New York, however, warns against "measures which, though helpful in checking the present downward trend of business, will be harmful to the economy later on." The American Bankers Assn. has been issuing similar warnings for more than a year. END

Wall St. Talks . . .

. . . about peevish stockholders . . . market rumors . . . a prophet's gloom . . . pickup in institutional buying.

Stockholders are beginning to bark at the cutting or dropping of dividends. At last week's annual meeting of Benrus Watch Co., one shareholder rose to berate management for dropping the usual May payment "while salaries remain the same." Next time, he suggested, "cut salaries and pay the dividend."

Market prices have been influenced by rumors that: (1) two new and scary studies on cigarette smoking are upcoming from the Veterans Administration and National Health Institute; (2) Bell & Howell will market a self-developing camera to compete with Polaroid; (3) Richfield Oil is cooking up a gas deal with Pacific Lighting that will add \$2 a year to its per-share net; (4) American Bosch Arma has signed a \$200-million contract for Atlas missiles.

A pro eyes the crystal ball: Joseph E. Granville, of E. F. Hutton & Co., who correctly predicted that the Dow-Jones industrial average would hit a 1958 high of 468 in May, now says the index will fall to 410 in June—compared with a low of 420 last fall. After June, Granville opines, the average will climb steadily to around 460 by September, drop to 448, rise to 455 in mid-October, then plunge below 365 in November.

Most Street analysts are bearish, though not so explicitly as Granville. This general pessimism moved one wag to remark that the only people making any real money in the market of late were those unable to read or hear the opinions of the experts.

Institutional buying is picking up, a broker reports. He says the renewed activity is "not because things are any better, but because they're not as bad as such investors had thought they would be by now."

Unsold remnants of municipal bond offerings are piling up on dealer shelves. Last week, the Blue List of unsold bonds advertised for sale reached \$412-million. Since many large blocks are not being listed, the actual floating supply is thought to be considerably larger—and maybe close to a record. But Streeters are confident that these inventories will be marketed profitably during the summer, when the new-issue calendar will be lighter.

INTERNATIONAL OUTLOOK

BUSINESS WEEK
MAY 31, 1958

A BUSINESS WEEK SERVICE

This week Washington is up against a world more complex and bewildering than at any time since the war.

The picture isn't all black, of course:

- **In Japan,** Premier Kishi's pro-Western government has won a solid victory in the Japanese general elections.
- **In Italy,** the Christian Democratic Party—favoring close ties with the West—has tightened its grip in general elections.

But in France—the strategic heart of the West's defense system—the situation is explosive (page 77). And in the crucial Mediterranean area, Washington must cope with the fact that:

- Lebanon's internal struggle against pro-Nasser forces may ultimately force the U. S. to intervene militarily.
- Tunisia's tense relations with France may push the U. S. into revising overnight its present policy of non-interference in North Africa.

This is how Washington looks on the French crisis:

It's resigned to a de Gaulle takeover. He's the only man—they say—who can restore Paris' authority over the military junta in Algeria. He may be able to avert the growing danger of all-out war between Tunisia and France. An outbreak of war there would probably force the U. S. to intervene on Tunisia's side. More important, he is seen as the only man to halt the dangerous drift toward civil war in France.

Washington thinks de Gaulle will try for a negotiated settlement of the Algerian war. He will work within the framework of a French-North African federation—and might well succeed. That would remove the biggest single cause of weakness and disunity among the Western powers.

But a de Gaulle government would give Washington plenty of worries. He might weaken NATO—and even try for a deal with Moscow, thus neutralizing France in the cold war. He might stall progress toward West European economic and political unification.

Beyond that, de Gaulle might unify French left-wing parties behind the Communists through authoritarian policies. That could pave the way for a "Popular Front." This danger loomed at midweek when the French Assembly temporarily closed ranks against de Gaulle.

The alternatives to de Gaulle—civil war or a continuing political deadlock—frighten U. S. officials. They see him as the least of a number of possible evils. Thus, they play down the hypothetical risks of a de Gaulle government.

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London takes a dimmer view of the French upheaval.

Both business and government circles fear the chances of civil war in France. They see this not so much as a stop-de Gaulle movement, but as a rebellion against the men and methods likely to come to the top under his government. They don't expect him to solve quickly France's relations with North Africa—in fact, they fear he'll create new tensions. In addition, they assume **NATO countries would probably have to make large concessions to French pride to save the military alliance.**

INTERNATIONAL OUTLOOK (Continued)

London feels that France is heading fast toward another financial crisis. France already has used up most of the dollars it borrowed from the International Monetary Fund.

What with the French crisis, London now believes that talks about the Free Trade Area should be put off. In fact, the first tariff cuts under the Common Market scheme, due to take effect next January, may have to be postponed—until France gets through its present crisis.

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The Administration is adding sinew to U. S. foreign economic policy. The new emphasis on aid, trade, and financial programs stems from the series of crises abroad—particularly the attacks on Vice-Pres. Nixon in Latin America.

Don't expect dramatic changes in economic policy. **The real difference now is the Administration's attempt at a coordinated approach to solving a wide range of overseas economic problems.** It wants to:

• **Increase quotas of member countries in the International Monetary Fund.** Thus, the fund could help carry countries through a short-term balance of payments crisis. It could also inject more credit into the free-world trading system.

• **Use the Export-Import Bank for short-term balance of payments loans.** These would be stopgap loans, to tide countries over payments crises until the IMF boosts its quotas.

• **Step up U. S. assistance to underdeveloped countries.** The Administration may ask Congress next year for $1-billion for the new Development Loan Fund. That compares with $625-million requested this year.

• **Help support a new International Development Assn.**, affiliated with the World Bank. The association would make long-term, low-interest loans, repayable in local currency. The Administration is convinced the association would be supplementary to—and not conflict with—the Development Loan Fund.

• **Consult more closely with countries affected by falling commodity prices.** At present, the Administration won't back price-support schemes. But it's ready to help influence producing countries to agree on multilateral controls to keep production more in line with demand.

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Britain's Commonwealth partners are also tackling trade and aid problems. Next week, to prepare for the big conference in Montreal scheduled for September, they will gather in London to discuss how to:

• **Expand trade** among Commonwealth countries. They may blueprint an improved system of mutual credits for inter-Commonwealth trade.

• **Mobilize development capital** inside and outside the Commonwealth. The stumbling block is how to coordinate more effectively the development plans of individual countries, so they won't call for capital all at once.

• **Stabilize world raw material prices.** Primary producers may press for a new attempt to get U. S. cooperation.

• **Tie the Commonwealth with the Common Market and proposed Free Trade Area in Western Europe.** Common Market countries want the same tariff treatment in Commonwealth markets as Britain gets. That's not the only problem. The French crisis may upset all plans for closer economic integration, inside or outside the Common Market.

KANSAS CITY PUTS A LOT OF

Truck owners, interviewed in the bustling Kansas City stockyards, praise economy and efficiency of their Ford Trucks.

Stand for an hour in the Kansas City stockyards and you'll be passed by hundreds of trucks loaded with livestock, filled with supplies, feed, frozen meat. You'll see Ford Trucks of every size and model, carrying the signs of dozens of firms . . . on-the-job evidence that American business buys more Ford Trucks than any other make.

WM. L. SEHNERT, Owner
Bill Sehnert Co.
Kansas City, Kansas

Operates a '58 Ford F-100 Flareside ½-ton Pickup in his general transfer business.

"Efficiency and economy in same package."
"My '58 Ford Flareside Pickup has never caused me trouble and it carries a plenty big payload, too. With this economical pickup we've got a dependable and durable truck for hauling any and everything at low cost."

FORD TRUCKS

STOCK IN '58 FORD TRUCKS

V. E. MOORE, Owner
Blake Sheet Metal Works
Kansas City, Mo.

The '58 Ford 1½-ton F-500 carries big heating installations with ease.

"Delivers on low operating costs."

"You need a rugged, economical truck to haul bulky sheet metal. Our '58 F-500 Stake really delivers on low operating costs and day-in-day-out efficiency. For us it has proved to be the best truck at the lowest cost."

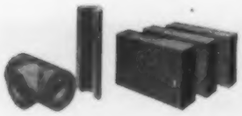
RAY MICHAEL, Partner
Rogers Truck Line
Kansas City, Mo.

Uses his Ford Ranchero for pleasure as well as day-to-day hauling.

"Rides like a car!"

"My '58 Ranchero rides like a car and its 300 hp. Interceptor V-8 engine can handle heavy loads with power to spare. First cost was far less than I expected, too. Nothing it can't do, including taking the family on fishing trips."

COST LESS *...Less to own...Less to run...Last longer, too!*



FOAMGLAS® INSULATION / waterproof, vapor-proof, strong, can't burn, acid-proof, vermin-proof, dimensionally stable

The speed and ease of application of the lightweight blocks of FOAMGLAS kept installation costs low for Planters.

FOAMGLAS insulation envelopes help keep Planters peanuts fresh

Peanuts in this Planters warehouse are protected by 4 inches of FOAMGLAS insulation in floor, walls, and ceiling. The unusual compressive strength of FOAMGLAS floor insulation lets Planters stack tiers of bagged peanuts higher (16 ft.) than ever before.

Planters Nut and Chocolate Company, Suffolk, Virginia, picked Pittsburgh Corning FOAMGLAS to insulate floors, walls and ceilings of four new warehouses . . . to form perfect insulation envelopes around their stored nuts.

When peanuts lose their shells, they lose an excellent protection provided by Nature. Once Planters removes the shells to sort, grade and bag the peanuts, they rely on rigid temperature-humidity control to keep the nuts moist and fresh in the warehouses. They rely on vapor-proof FOAMGLAS insulation to help them maintain this precise control at all times.

Because FOAMGLAS is vapor-proof, it forms a natural vapor barrier. This makes it easy to keep relative humidity at a constant 65-70%. And since FOAMGLAS *stays dry*, it holds its original insulating value. This makes for real economy in holding temperatures at 38°F. The material is easy and economical to apply, and this incombustible insulation provides extra building safety, too.

If *you* need constant long-lasting insulating value, you need FOAMGLAS—the moisture-proof insulation. Get the full story in our latest Low Temperature Insulation Catalog. Send for it today.

PC Glass Blocks are another outstanding building product of Pittsburgh Corning Corporation.

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In Washington

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Senate Committee Votes Bill To Ease Pain of Railroads

Railroads made a major gain this week in their bid to get Congress to bail them out of their current financial plight. It came when the **Senate Interstate & Foreign Commerce Committee unanimously approved a package bill that would give the rails greater freedom in rate making, up to $700-million in financial guarantees to buy equipment, and greater leeway in abandoning unprofitable operations.**

Greater freedom for rate making was the key point in the committee's action. It was voted despite stiff opposition from truckers and barge lines as well as the Interstate Commerce Commission.

The rails are expected to win backing in the Senate, but are likely to run into a roadblock in the House, where the trucking lobby is most effective.

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Supreme Court Faces Heavy Schedule Of Decision Making to Clear Docket

The U.S. Supreme Court may run late in winding up its 1957-58 term. With several dozens of cases now ready for decision, the court has scheduled decision Mondays for June 2 and June 9, may have to add another to clear its docket.

The court still is accepting cases for decision next term, however. This week, it agreed to decide cases brought by an Arkansas wholesale liquor dealer and a West Coast beer wholesaler seeking federal income tax deductions on contributions to publicity campaigns to defeat proposed state prohibition laws. Denied the deduction by lower courts, the dealers argue the contributions are "ordinary and necessary" expenses to preserve their business and should be deductible.

Among the major cases awaiting decision by the high court in the next few weeks are:

• **Legality of hot cargo clauses.** The court can decide whether it is illegal even to sign hot cargo contracts or whether a Taft-Hartley violation occurs only if unions appeal directly to employees to enforce them.

• **Sale of General Aniline & Film Corp.** Whether the government will be able to put this chemical company, valued at over $100-million, up on the auction block depends on the outcome of the appeal by the former owners. They say they were denied a fair opportunity to establish their status as non-enemy aliens and their rights to return of the property seized during World War II.

• **California water irrigation.** At stake here is federal assistance for construction of the Central Valley Irrigation Project. Federal funds have been held up by a state court ruling that the clause in federal reclamation project contracts limiting landowners to the amount of water needed to irrigate 160 acres of land is illegal.

• **Grand jury records.** The Justice Dept. is fighting a decision saying that if testimony before a grand jury is used to prepare a civil antitrust suit against companies investigated but never indicted by the grand jury, the government must show the secret grand jury records to the companies or have its civil case dismissed.

• **FTC authority over insurance business.** Lower courts have ruled that the Federal Trade Commission has no authority to prosecute insurance companies for alleged false advertising of their policies where states have enacted their own laws against unfair or deceptive practices.

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Democrats Won't Block AEC's Plans For "Partnership" Atomic Power Plants

At least three "partnership" atomic power plants—to cost around $73-million—appear to be getting the green light. The Democrats on the Joint Committee on Atomic Energy—who have been feuding with Atomic Energy Commission Chmn. Lewis Strauss—aren't objecting to tentative AEC plans to subsidize construction of these plants.

The projects would be built by a group of private companies (Carolinas Virginia Nuclear Power Associates), a municipality (Piqua, Ohio), and a rural co-op (Rural Cooperative Power Assn. of Elk River, Minn.).

The fight still goes on, though, over the building of federal atomic power plants. The Democrats now advocate two plants: a plutonium-producing facility at Hanford that also would supply electricity, and a gas-cooled design similar to British types.

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IRS "Advisory" Will Cut Tax Benefits For Some Oil and Gas Companies

Some oil and gas men have been shorn of a fraction of the tax benefits they get from their 27.5% depletion allowance.

The Internal Revenue Service, at the request of unidentified oil companies, last week published what it calls an "advisory". It affects oil and gas operators who have elected to treat costs and income separately on each lease or tract for tax purposes.

Under certain specific circumstances, operators now will have to deduct from their gross income the cost of certain dry holes drilled on the lease before deducting the 27.5% depletion allowance.

To take a simplified, hypothetical case: Until now, an operator with $100,000 gross oil or gas income on a lease could deduct $27,500 as depletion allowance, then deduct, say, $25,000 it cost him to drill a dry hole on it. This left him with $47,500 of income subject to federal income taxes.

Now, he'll subtract $25,000 for the dry hole from his $100,000 income—and take his 27.5% depletion allowance from the remainder. This gives him an allowance of $20,625 and a taxable income of $54,375.

IRS officials say they don't know yet how many oil operators will be affected.


LAND USE · PUBLIC HEALTH · LAND RECLAMATION
CONSTRUCTION · TRANSPORTATION · EDUCATION
UF

- The French have come to strikes and street violence over politics (picture, right) for many reasons.
- For one, France has been chronically unable to form a stable government.
- For another, it has suffered a series of humiliating reverses in its position overseas.
- And it's torn by conflict between stubborn individualism and fierce nationalism.

What Produced France's Crisis

Since the end of World War II, France has rocked through one government crisis after another. Each time it has patched together a new cabinet—and fooled the critics who expected big changes.

This week, France seemed ready to change after a whirl of events culminating in Gen. Charles de Gaulle's bid for power (page 16). It was proof that while France has generally thrived economically in the postwar decade, it has gone sick politically, to the point where the country seems to be calling for surgery and not just medicine.

On both sides of the Atlantic, people are wondering what lies ahead for France. Despite its emergence from World War II as a second-rate power, the country has played a pivotal role in the political and economic growth of Western Europe—and in Europe's relations with the U.S. Will a Gaullist government continue France's participation in NATO and the Common Market, for example? France's membership is crucial to both organizations.

But people also are wondering just what brought on the crescendo of events leading to de Gaulle's open bid for power. The answers come from three major trouble spots:

Military and political losses overseas. World War II reduced the size of the French Empire. An independent Algeria might be the last straw—the signal of the final collapse of France's dwindling overseas empire.

Government without strong leadership. The National Assembly, a conglomeration of many political parties, has tried to rule the country. But its ability to rule and make decisions has rested on the delicate balancing of a large number of political factions.

The nation's split personality. On the one hand, it has been anarchic and individualistic, in line with the emotional principles espoused during the French Revolution. But there also has been another thread running through France's history—of the Napoleon Bonaparte type promising to bring glory to the country with a strong hand.

I. Citizens vs. Heroes

A walk through Paris points up this schizophrenia. At street corners, you find monuments to French history. One monument recites the catchwords of the French Revolution of 1789—liberty, equality, and fraternity. Another tells of the glories of Napoleon and his powerful armies. Twice, in 1799 and 1851, the army clamped down on the republic. But no republican government in France ever knocked the props from under the army's potential political power.

The average French citizen has always been deeply conscious of the dual character of the French state—its democratic side, its authoritarians side. Fear of the "man on horseback" has become second nature to most Frenchmen.

• **Dread of Executives**—Thus, the French people have never permitted the creation of a strong executive, such as you find in the U.S. On two occasions when this might have been possible—during the Third Republic following Prussia's defeat of Napoleon III in 1871 and after World War II—the French rejected the idea of handing power to one man. The second time, it was de Gaulle, wartime head of the Free French, who proposed constitutional changes along these lines—and then went into retirement when the French turned down his ideas.

In the Fourth Republic, formed in 1947, the president has remained a figurehead, just as he was under the Third Republic after Napoleon III. The constitution lets the National Assembly form and overthrow governments at will —and elect the president as well.

What provided continuity as one government replaced another was the highly efficient bureaucracy handling day-to-day affairs. Key personnel in the

bureaucracy for the most part rarely changed.

Thus, in the slower-moving years between World Wars I and II, France could somewhat afford to overlook the shortcomings of its premiers and cabinets and make do with the steady work of its civil servants.

II. The Postwar Flux

France emerged from World War II a thoroughly beaten country, in despair over the psychological blow of its 1940 defeat by Germany. But it still expected to play a central role in the political and economic development of Western Europe—and, in fact, in overseas areas, too.

To a large extent, it has been in the forefront of major European developments since the war. Through U.S. aid under the Marshall Plan, it got a strong start on economic recovery. Since 1954, it has grown industrially as rapidly as any country in Western Europe. While it blocked formation of the European Defense Community (EDC), it put its shoulder behind NATO to protect Western Europe from Soviet advances. It was the leader in setting up the European Coal & Steel Community. Though traditionally protectionist, in the interest of guarding its high-cost industries from foreign competition, it backed the plan for the Common Market.

But France has had a host of economic troubles—chief among them big payments deficits externally and chronic inflation internally. No postwar government has been able to cope with these problems effectively. France has had to import large amounts of raw materials to keep its industries booming. But the country has not pushed exports enough to pay the import bill.

• **Quick Changes**—Through it all, France has persistently failed at creating the sort of strong, stable government structure that might have helped solve its problems. Thus, since the war's end, French governments have changed at an even faster pace than prewar. In 13 years, there have been 25 governments.

This stems from the fact that since the war the opponents of democracy—the large Communist bloc on the left and the smaller, extremist right-wing bloc—have occupied about 30% of the 594 seats in the National Assembly. In the five general elections since 1945, the Communists have won roughly 5-million votes each time—with 5.5-million polled in 1956.

• **Center Coalitions**—With so large a bloc filled by the Communists, the National Assembly has brought forth a succession of governments formed from coalitions of the center parties.

Since the war, each government has played up more to the short-range interests of the leading coalition party than to the national interests. Frenchmen have continued to vote for "their" parties, but the merry-go-round of governments has led backers of the center parties to grow apathetic. This apathy has encouraged the extremists on the right and the military commanders in Algeria to push for more state power.

• **Weakening Abroad**—France's fairly rapid decline in power overseas has partly reflected the political instability in Paris. During the war, the country had lost control over Syria and Lebanon. This virtually eliminated it as a major influence in the Middle East.

Then, after World War II, it lost its richest colony, Indo-China. This ended France's role as a power in the Pacific.

Finally, in the past three years, there have been a series of blows to France's prestige:

- The independence granted to Tunisia and Morocco.
- The forced withdrawal from Egypt after the attack—along with the British—on the Suez Canal.
- The struggle in Algeria, begun in 1954, suggesting the end of France's hold on African territories.

These blows killed the idea of a "French Commonwealth" patterned after the British Commonwealth. Faced by defiant rebels in Algeria, seeing the rising influence of Nasser both in the Middle East and to a lesser extent in North Africa, even a liberal Socialist such as Guy Mollet became a proponent of the "military solution" for Algeria.

• **Moderate Overtures**—Yet Felix Gaillard, premier before Pierre Pflimlin's government, began to move cautiously toward a settlement on Algeria. He got encouragement from Washington and London. The idea was for Pres. Bourguiba of Tunis to negotiate.

But when French planes bombed a Tunisian border village, the plan fell through. Observers seem sure now that the bombing, prompted by Paris and Algerian extremists in cooperation with high French officers, was designed to prevent Bourguiba from fulfilling his role as go-between. And, even more important, the bombing seemed to be the beginning of the Gaullist military coup that followed on May 13.

• **Behind the Coup**—The old split in France between Bonapartism and democratic government smoothed the way for the military takeover in Algeria. The French Army's loyalty is not to an established, clearly defined civilian authority, but to the republic in general.

Moreover, the bulk of the French army was fighting in Algeria at the time of the coup. On mainland France, the generals could hardly have moved independently. But in Algeria, cut off from the mainland, the generals had a situation ripe for a takeover. END

In Business Abroad

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Britain Dickering With Euratom

For Chance to Sell Atomic Equipment

Britain is out to negotiate an agreement for technical collaboration with the six Euratom countries—France, Italy, West Germany, and the Benelux group.

The agreement would provide Britain with entree to sell atomic equipment to Euratom—working through the newly formed Western European Nuclear Energy Agency.

• • •

Russo-Belgian Deal Gives Both Sides

Rights to Fly Moscow-Brussels Route

Belgium and the Soviet Union have signed an agreement for reciprocal flying rights between Moscow and Brussels. On June 1, Sabena—Belgium's flag carrier—begins flying once weekly to Moscow from Montreal and New York, via Brussels.

For its part of the deal, Aeroflot, Russia's national line, will operate two flights weekly from Moscow to Brussels, using TU-104 jets. Later in the summer, the Belgians are to get two flights weekly, Brussels-Moscow. The Belgian line will operate DC-7C aircraft.

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West German Ford Cranks Up

To Speed Cars Into U. S. Market

Ford Werke AG of Cologne, Ford Motor Co.'s subsidiary in West Germany, will export 5,000 West German Fords to the U. S. this year. Ford Werke already has shipped over a trial batch of its de luxe 17M models and two station wagon models to test the market.

The samplings provoked such a flood of inquiries from U. S. Ford dealers that the company decided to export the cars on a regular schedule.

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India's Tax on Over-$42,000 Incomes

Brings More Resentment Than Cash

Last year the Indian government drew fire from businessmen, private companies, and rich families when it slapped a "wealth tax" on incomes above $42,000 a year.

Now the government has discovered the tax is a good index of the country's poverty and a poor source of revenue.

The Finance Ministry has found that there are only 37,906 individuals, families, and companies—in a country with 380-million people—who fall in the above-$42,000 income bracket. And while the government had expected $30-million in new income from this group, it has been able to collect only $14-million.

Now the government's critics are asking: Is the tax worth the trouble of setting up cumbersome tax machinery and the danger of dampening the climate for new, private investment?

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U. S. Greenback Will Replace Scrip

As Wampum for Military PX Purchases

U. S. military payments certificates—scrip—are no longer valid for purchases in U. S. Post Exchanges in West Germany, France, and Italy. Henceforth, U. S. personnel will get paid in U. S. currency.

According to U. S. officials, the changeover resulted from pressure from junketing congressmen. Apparently they decided that **scrip could be a hidden cost-factor in army budgeting.** Scrip has been legal exchange currency for U. S. military, their dependents, and civilian employees since 1947.

Elsewhere in Western Europe, Asia, and Africa, personnel will get an interchangeable scrip to replace old issues that until now were valid only within the country of payment.

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Argentina and U. S. Investor Both Win

In Settlement of Utility Plants Feud

After 10 years of undeclared war, Argentina and American & Foreign Power Co.—largest U. S. investor in Argentina—are ready to settle their differences. The differences date back to the Peron regime, which expropriated 40% of the American company's $117-million investment in 100 electrical utility plants.

Here are the basic terms agreed upon:

- **Argentina will compensate** AFP for the plants seized by Peron. The amount of compensation will be set by an Argentine Supreme Court commission.
- Argentina will purchase the rest of AFP's plants, which are now operating at a loss.
- **AFP must reinvest** its compensation money in Argentina, and make available an additional 25% in fresh capital. Both sums are to be put into a new Argentinian power development program.

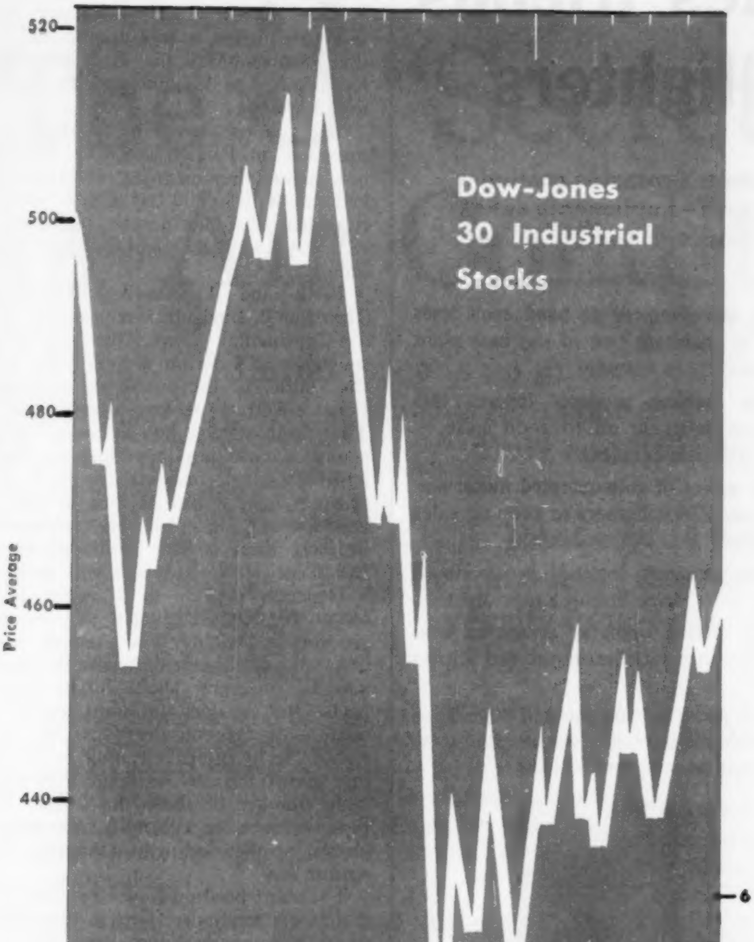
• • •

Trade Pact Links Japan and Malaya,

Points Way to Other Free Nations in Asia

Malaya and Japan have signed a trade pact that could serve as a prototype for other trading agreements between the free nations of Asia. The pact provides that Japan buy Malayan raw materials, process them into finished goods, and sell the goods in Malaya. Thus, both Japanese industry and Malayan exports would get a boost. The pact also provides for Japan to set up marketing outlets, small enterprises, and light industry in Malaya.

Shorts Grow, but Not Their Profit



Data: Dow-Jones & Co., New York Stock Exchange.

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Short interest has almost doubled since January; so far it's money on the wrong horse, and many think the drop shorts are betting on won't come.

As the lower part of the chart shows, the short-interest position on the New York Stock Exchange, one of the important indicators of market sentiment, is definitely indicating an increase in bearishness. Yet stock prices—as the upper line indicates—continue to resist a decline.

This paradox is puzzling many astute stock traders, and is painfully expensive to a growing number. For those who have bet on a decline in the market by selling short—selling borrowed stock with the intention of replacing it at a lower cost and pocketing the difference—have, so far, been making the wrong move.

• **Climb**—The short sellers have been increasing their bets since January, when the short-interest position totaled only 2.8-million shares. The mid-May figure, announced last week, was at 5.4-million shares, within shooting distance of the 5.6-million shares recorded in May, 1931, the first month that figures were regularly compiled.

Market technicians warn against drawing parallels between the present short position and that of 1931, when the market registered a steep drop. They point out that the number of shares outstanding is now about four times greater. They also note that the economy was in the depths of a depression in 1931, while today there is no sign of a spiraling decline.

In the past, short sellers have often been wrong about market movements. They have sometimes done extremely well in specific stocks, but by and large, rises in short sales have not been followed by market drops. For that reason, many observers do not think the present rise means a market decline. But at the same time, it is not a signal for a boom.

• **Reverse Action**—A large short position actually tends to firm stock prices —at least in the short run. That's because decline in stock prices leads the shorts to "cover" by buying, and that keeps a drop in check. Where a stock goes up, the shorts buy to cut their losses, and that acts as a stimulant.

Joseph Mindell of Marcus & Co. points out that the heavy short position in steels has had this effect on steel stock prices.

A very large short position—almost 1-million shares—has piled up in steel

stocks. But there has been no weakness of steel prices; and as shorts are forced to cover, they not only keep prices from falling but have been bidding them up.

In U. S. Steel, for example, there was a short interest of 295,000 shares in mid-April, when it sold around \$57 a share. In mid-May the short position had climbed to 336,000—and the stock was above \$61.

The shorts have been similarly squeezed on P. Lorillard Co., and it now appears they are giving up. Lorillard had shorts of 80,000 last month, when it sold at \$53; this month, the shorts were down to 74,000, and the stock was selling at \$58.

• **Faith and Figures**—According to Thurston P. Blodgett, vice-president of Tri-Continental Corp., the market's resistance to a decline is largely due to the "faith" of the public and institutional investors in long-term growth. The short sellers, he says, are "the agnostics" who are operating on the basis of factual considerations, such as earnings figures. But as long as there is no loss of faith, and buying continues, he feels, there is little likelihood that the skeptical short sellers will profit.

• **Hedgers**—Not all short sellers are convinced that a decline is due; many are simply hedging. For example, an investor who has made a sizable gain may be uncertain about future prospects. But he does not want to sell—because of tax considerations, for instance. So he protects himself by "selling against the box"—selling short the same number of shares he holds. If the stock rises, he will not get any extra profits; but if it declines, he is protected against loss.

The short position is also boosted by arbitrage operations. This is common when a company offers stock rights. It's usual for professionals to buy rights, and sell the stock short. If the price of the stock increases, the value of the rights goes up. But if the stock goes down, the rights often show a smaller decline, so the arbitragers can come away with a profit.

• **Pros**—Most short sellers are professional traders. Normally, Stock Exchange members—who engage in arbitrage and hedging transactions—are the biggest short sellers of all. In a 1955 study, for instance, 75% of all short selling was done by NYSE members. These professionals, who follow the market closely, are usually in a position to take immediate advantage of a drop in earnings or a cut in a dividend. But, as the recent record indicates, the professionals have been taking a beating.

One ruefully admitted this week going short in a stock whose first-quarter earnings dropped 30% below 1957. "Instead of weakening," he complains, "the damn price shot up two points on the news." END

In the Markets

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Stocks Shrug Off Crises and Tax News, As Investors Maintain Confidence

The stock market this week, like the postman making his daily round, seemed impervious alike to the crisis in France, to Washington's decision not to provide a tax cut, and to numerous dividend reductions.

There was no strong upsurge. Instead, **the Dow-Jones industrials average fluctuated narrowly, but close to the 463 peak it hit earlier this month.** Some stocks went down on news of lower dividends, but these were offset by many companies reporting that the worst of the decline appeared over.

Investors seemed inclined to search out the few bright spots. Copper stocks, for instance, went up as smelter prices were hiked. And the long-suffering railroad stocks were strong on reports that government assistance was in prospect.

The market is still vulnerable to unexpected developments. But its performance this week indicated that it would take a great deal to shake investor confidence that the present decline in business is temporary and that a rise in stock prices lies ahead.

. . . And the Seers Take a Fresh Look

Wall Street seers were back at their crystal balls this week:

Arthur Wiesenberger & Co., which earlier predicted a drop to below 400 on the Dow-Jones industrials average, now is advising its clients to reinvest one-third of idle funds on the ground that "the worst, at least, may be behind us," and that this is the time of year "when stock prices usually move upward."

Anthony Gaubis of Anthony Gaubis & Co. sticks to his past prediction that the low this year will be 390—"plus or minus 2%." He feels that a larger drop is unlikely because of "purchases by pension funds . . . and the reluctance of many investors to sell stocks because of tax considerations, and the very long-term outlook for inflation."

• • •

Services' Stock Tips Affect Prices —Especially When They Say "Buy"

What effect does a recommendation by a stock advisory service have on a stock's performance? Enough to give a well-heeled trader some sizable profits, claims Robert Ferber of the University of Illinois, in a study called Short-Run Effects of Stock Market Services on Stock Prices. **Ferber's study covers four services—Brookmire Investors Service, Standard & Poor's, United Business Service, and Value Line—and the influence of their recommendations on stock prices during the first three months of 1953.**

Ferber says there is an immediate effect on most stocks when an advisory sheet touts them—sometimes lasting as long as four weeks. But he reports that the actual price movement is small, and he figures that—after commissions and taxes—it would take at least a $5,000 transaction for a trader to make profits from such small price swings.

"Sell" recommendations, Ferber reports, also have an effect—but not necessarily an immediate one. Many investors apparently check elsewhere before selling.

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Two Old-Line Investment Bankers Get Into the Mutual Fund Parade

Two of Wall Street's old-line investment banking houses, which have always maintained an arm's length attitude toward mutual funds, are now joining the parade. They are Lehman Bros. and Lazard Freres & Co.

The One William Street Fund, managed by Lehman Bros., made its bow this week. It completed a 16-million share offering at $12.50 a share, and acquired the holdings of the Lehman-advised Aurora Corp., a private investment company largely owned by Ford Motor Co. executives. These holdings, valued at about $36-million, **boost the fund's initial assets to some $225-million.**

It is expected that the conservative Lehman managers will initially put money into Treasury bills. Investments in equities will probably be slow and well spaced.

Lazard expressed its intention to form a mutual fund. It filed a notice with the Securities & Exchange Commission of plans to operate The Lazard Fund, Inc., which will offer shares to the public. **But unlike Lehman's fund and most other open-end funds, Lazard does not plan to continue offering shares after the initial offering.**

• • •

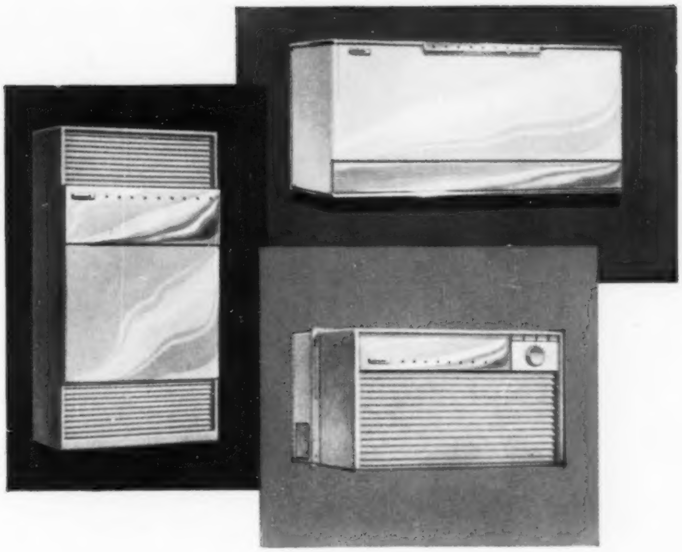
Court Turns Down SEC Bid to Rule Companies Issuing Variable Annuities

Insurance companies that sell variable annuities won a major round in their battle with securities dealers and the Securities & Exchange Commission. These annuities are the retirement income contracts that tie payments to the market value of the stocks in the insurance company's portfolio, instead of paying out a fixed dollar amount as is done in regular annuities.

SEC claimed that the risk nature of the variable contracts makes the insurance companies issuing them much like investment houses, and thus subject to SEC regulation. The commission sued the Variable Annuity Life Insurance Co. of America to stop it from issuing contracts not registered with the commission; the National Assn. of Securities Dealers intervened on the side of SEC.

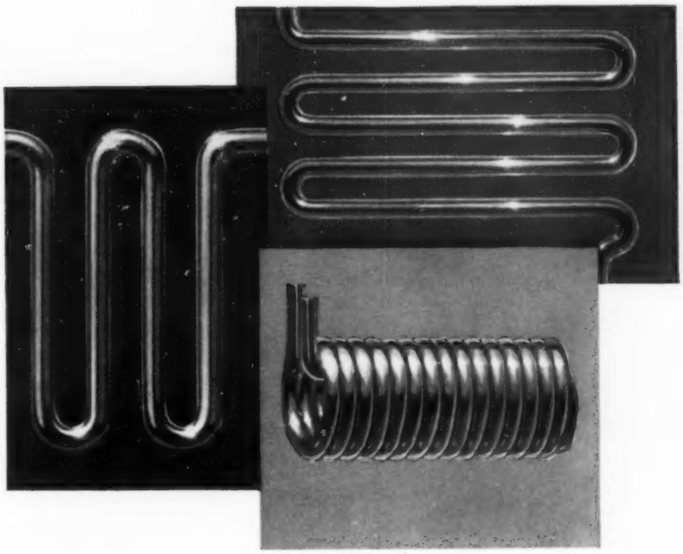
But the U.S. Court of Appeals in the District of Columbia, where VALIC is incorporated, held that variable annuities are the proper business of an insurance company. It ruled that the company should not be subject to SEC regulation.

An appeal to the Supreme Court seems a certainty.



COPPER COILS—HEART OF COOLING EQUIPMENT

DIMENSIONAL TUBE made by PHELPS DODGE



Dimensional tube is copper tube made specifically for manufacturers of air-conditioning and refrigeration equipment. It is shaped into various types of refrigerant-carrying coils which extract heat and control humidity, help make our living more comfortable. Tube of this type must combine long-lasting quality with carefully precisioned dimensions. Among equipment manufacturers Phelps Dodge enjoys an enviable reputation for dimensional tube of the finest materials, the most expert workmanship.

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PERSONAL BUSINESS

BUSINESS WEEK
MAY 31, 1958

A BUSINESS WEEK SERVICE

You may be one of the many hundreds of businessmen who will be receiving honorary degrees this year.

In the next few weeks many of the nation's colleges and universities will highlight their commencement exercises by awarding a record number of honoraries. But estimates place this June's total at around 5,000. (Since the first was awarded in the U. S. by Harvard in 1692, over 80,000 have been granted by some 970 "accredited" colleges.)

Not only is the number increasing but **more and more of the degrees are going to prominent businessmen.** While businessmen don't score so high, percentagewise, as do people in the professions, sciences, and arts, their academic star is rising. But **you can ignore most of that talk about colleges' awarding honoraries to the wealthy in the hope of snaring big money gifts.** Those cases actually are few and far between.

If you think a fellow executive is a likely candidate for an honorary, you can discreetly open the door—a crack, at least. Best idea is to contact personally one of the trustees or the president of the school early in the academic year (though final action probably wouldn't be taken for a few months). First, though, check to see whether the school grants honoraries, and if so, how many each year. Some colleges award just one or two; others, like Yale, 10 or 12.

Simply make your suggestion, giving reasons, of course, then wait. Never make the nomination public—and obviously, **don't apply "pressure," not even slight persuasion.** At the outset, your nominee will stand a better chance if he's a graduate of the school, but this isn't necessary. Unless he's nationally known, though, **he may not have much chance if he comes from a section too remote from the school.**

Most schools make their selections through a committee of the board of trustees, suggestions coming from faculty members, college officials, from the board itself, and from outsiders. Once a nominee is approved by the trustees, he is quietly informed—usually by letter. However, general announcement is usually not made until the day the degree is awarded. One rule: **Attendance at the ceremony is a must**—except in case of illness.

Most honorary degrees are doctorates, though some schools give honorary masters. Some of the more popular doctorates are Laws (LL.D.), Letters or Literature (Litt.D.), Science (Sc.D.), Humane Letters (L.H.D.), and Divinity (D.D.)—the latter in spite of the fact that few schools award the earned D.D. The honorary Doctor of Philosophy (Ph.D.) is no longer awarded—the last was conferred in 1937.

In evaluating an honorary degree, remember that **the entire benefit is measured in terms of honor and prestige.** There are no "mysteries." The degree, in effect, simply makes you an honorary alumnus of the school. Aside from the fact that a doctorate carries the privilege of using "Dr." before your name, and permits you to wear appropriate academic robes on occasion, there are no special privileges attached. Nor are there special obligations, except moral ones.

Here are some formalities to bear in mind:

• **Cap and gown.** The hood, an ornamental cape worn with a standard academic gown, is the mark of distinction. It is black, usually lined with the school's colors—for example, Harvard's crimson—and trimmed with a color that indicates the specific degree. The Litt.D. color is white; the D.D.,

scarlet. The hood is placed over the shoulders at the moment the degree is formally awarded.

The academic cap, or mortarboard, is black, and usually carries a black tassel—though for doctorates the tassel often is gold. The cap's tassel may lay in any direction—to move it so it hangs over the left front of the cap is no longer considered necessary in academic circles. During the ceremony, the hood and cap are worn at all times, except that the cap is removed during prayer. The school orders the individual costume, well in advance, and there is no charge. Usually the hood, alone, is given to the recipient. A dark business suit is proper to wear under the robe.

• **Ceremony.** The usual order of academic procession places the honorary degree recipients behind the president of the school and the chief speaker, followed by the board of trustees, the faculty (in rank), and the students.

You rise and receive your degree when the president or a college official reads your personal citation. At that point, as you face the president, the procession marshal places the hood over your shoulders. The president hands you the degree; you thank him briefly, and return to your seat—without even a short speech.

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The theory that executives are especially prone to heart diseases may have little basis, says a report by Metropolitan Life Insurance Co. Its studies reveal that members of wage-earning families with lower incomes experience a higher death rate from heart diseases than do those with higher incomes. **At ages under 65, highest death rates from arteriosclerotic heart disease occur in lowest socio-economic groups.**

And speaking of heart disease tolls, a new book **questions the wisdom of men over 40 being advised that smashing that tennis serve, or going another round of 18 holes of golf, is sensible.** Dr. Peter J. Steincrohn instead tells why he feels such activity is a harmful waste of energy in his volume, You Can Increase Your Heart Power (Doubleday, $4.95).

As for the relationship between dietary fats and cardiovascular affiliations (such as coronary thrombosis), the Research Council of the National Academy of Sciences says there is no decisive proof that fats contribute to such ailments. Result of recent study: **no major changes in American dietary habits recommended.**

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If you decide to air condition your car this year, you'll be among the more than 350,000 motorists expected to seek this quiet bliss of closed windows and cool air. The trend is growing most rapidly in the West and South (Florida, in particular).

Current price for a factory-installed combined air conditioner-heater ranges from $369 to $610. However, the cost is expected to drop when a.c. generators are available for passenger cars, reducing both the size and cost of the compressor. Just how much—and when—is still undetermined.

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Want to serve a new drink at your next party? Gaining in popularity is the "**Leprechaun**"—1 part Irish whiskey, 2 parts tonic water, a twist of lemon peel; pour over ice in a tall glass.

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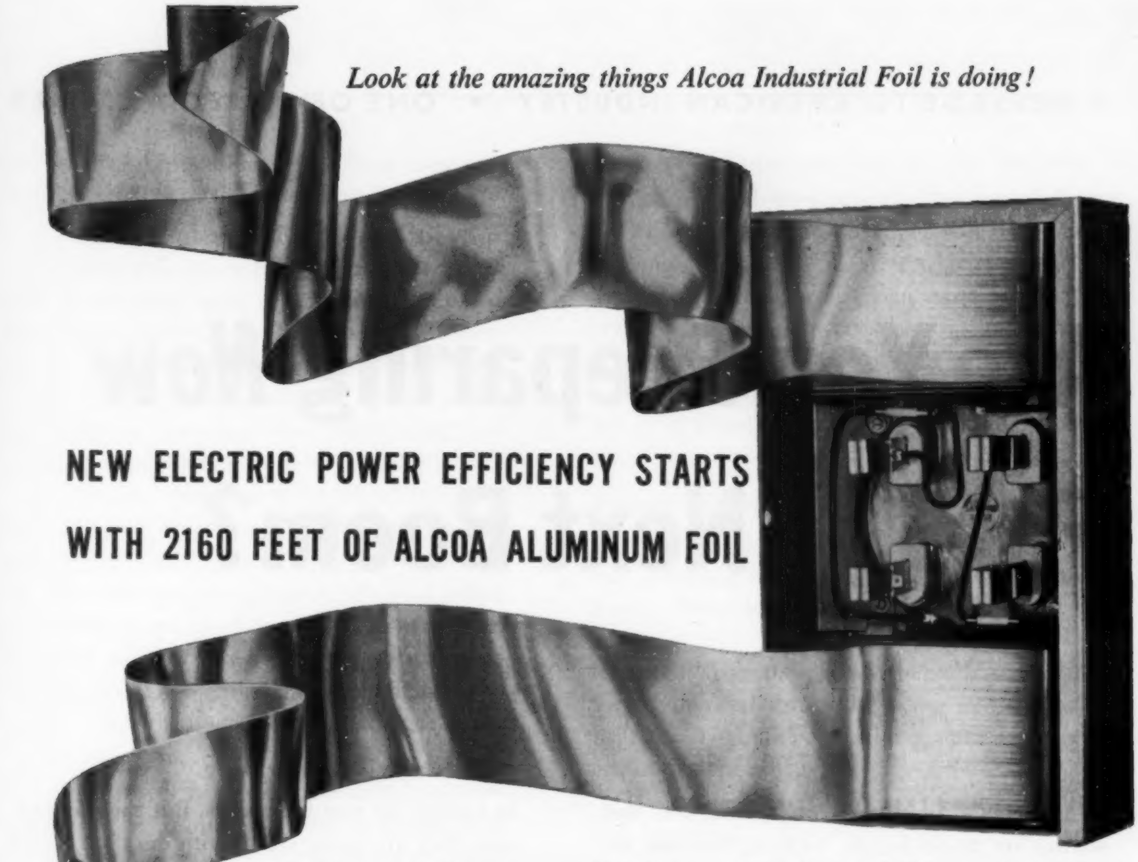
Charcoal broil boon: Beef barbecues will cost you a little less this year. Prices of choice cuts will drop soon, the Agriculture Dept. predicts.



Are You Preparing *Now* For The Next Boom?

America's leading companies are not sitting on their hands waiting for the recession to end. They are planning ahead *now* for higher sales and near-capacity rates of operation.

These facts stand out clearly from the eleventh annual survey of Business' Plans for New Plants and Equipment just completed by the McGraw-Hill Department of Economics:

- **Manufacturing companies expect their sales to increase 20%, on the average, from 1958 to 1961.** Growth industries, such as chemicals and electrical machinery, expect gains of 25% to 34%.
- **If these sales gains are achieved, the average rate of operations in manufacturing will rise from 78% at the end of 1957 to almost 85% by 1961.** This is the point at which pressure on costs begins to mount, as less efficient facilities are pressed into service.
- **Industry is not waiting for this point to begin getting its plants and equipment in shape for the next boom.** Despite record expansion in the past several years, many manufacturing companies plan to add new capacity in each of the next four years. But, more important, they are going ahead with the vital job of modernization and cost-cutting.

In the years immediately ahead almost two-thirds of capital investment will go for modernization and replacement of present plants and equipment. In this way manufacturing companies can avoid the higher costs and the squeeze on profits that occur when producing facilities are not in shape to handle an increase in sales volume.

These are the plans, as reported to McGraw-Hill, of a wide sample of manufacturing companies—for the most part, large firms and leaders in their respective industries. Altogether, these firms account for almost 40% of all employment in manufacturing industries.

Now Is The Time

How do your plans measure up? Are you planning ahead now for a 20% sales increase in the next three years? Is your company planning to modernize its buildings and equipment more rapidly than at any time in the recent past? If not, here are some of the inducements

that McGraw-Hill editors report from their continuous checking on the state of business.

(1) **There are plenty of opportunities for increasing efficiency by the installation of new equipment and the improvement of layouts in plants, warehouses and offices.** Despite the installation of tremendous volumes of metalworking equipment in recent years, according to AMERICAN MACHINIST over half of the machine tools now in U. S. factories are over 10 years old. Replacement of worn-out and obsolete equipment will mean material savings in operating and maintenance costs.

(2) **Machinery, parts, materials and labor are much more readily available now than they are when the economy is running at full steam.** You can be more particular about quality and about specification to meet your own requirements.

(3) **With lower interest rates and less competition for loans, it is both easier and cheaper to borrow money to finance equipment and construction.** To wait for another boom is to run the risk of having to pay higher interest rates and look harder for money.

(4) **Although there is an adequate supply of most types of labor available now, the prospect is that the supply of factory labor over the years ahead will be tight.** In 1965, there will actually be fewer men and women between the ages of 25 and 44 than there are now. Good factory workers will be either hard to get, or wage rates will rise sharply or—more likely—both. The best answer is to anticipate the rise in labor costs by installing more efficient equipment to increase labor productivity.

(5) **Finally, the costs of investing in new buildings and improved equipment *now* are almost surely less than they will be later.**

These are some of the reasons why many leading firms find ***now*** the best time in years to start on a program of plant modernization. There are other good reasons in the many new products and processes coming from the boom in research and development. This year industry will spend over $8 billion on R & D—$1 billion more than in 1957. And a heavy share of the new product development will consist of better machines and processes to be made available during the next few years. Already the pace of technical advance is so rapid as to call for modernization of plants built only a few years ago.

Years of Opportunity

It has been said that the years between now and 1961 are the "middle years" between two booms. This does not mean a long period of recession, but a period of slower growth—a transition from the postwar boom based on deferred demand, to a new boom in the 1960s based on dynamic population growth and a revolution in technology.

If so, these are the years of opportunity for business—opportunity to prepare for the growth that lies ahead with the most efficient equipment, the most modern plant and the best production organization that can be devised. This is the way to fight higher costs and avert a resumption of inflation. This is also the way to ensure that your company will be ready for its new markets in the 1960s.

Are you planning ahead ***now*** to be among the leaders?

This message is one of a series prepared by the McGraw-Hill Department of Economics to help increase public knowledge and understanding of important nation-wide developments. Permission is freely extended to newspapers, groups or individuals to quote or reprint all or parts of the text.

Donald C McGraw

PRESIDENT

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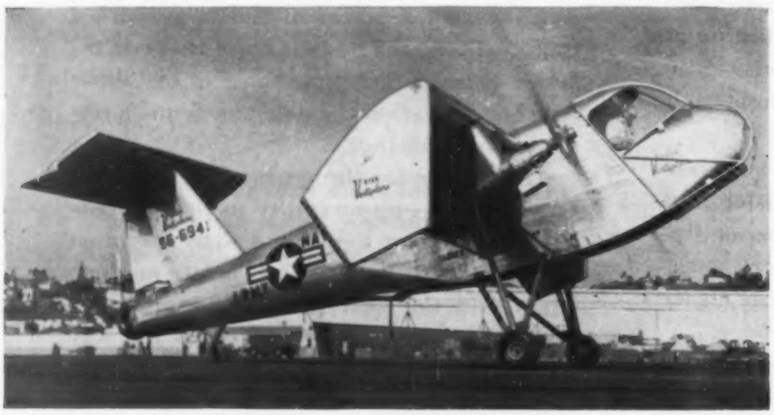
TILT WING is used by Vertol test plane above, about ready to try transition from vertical to horizontal flight and back again. It's also the design of Hiller Helicopter's big transport-sized plane, to be tested later in the year.



DEFLECTED SLIPSTREAM provides the extra lift in Ryan Vertiplane. Propellers driven by jet turbines blow air back against retractable flaps. Fairchild and Kaman are also interested in this type.

DUCTED FANS in this Doak Aircraft Co. test craft are aimed up to lift the ship vertically, forward to pull it horizontally. Doak's business is making airplane subassemblies ($1-million a year) but it has worked 23 years in VTOL field.

A Lot o

VTOL means vertical takeoff and landing. It could also mean more useful, more agile aircraft for tomorrow.

In and out of science fiction, man has long dreamed of being able to step out of his house and into a vertical-rising jitney that could whisk him to his office, a 100 miles away, in a few minutes. This has proved an elusive dream.

Jet airliners will be able to fly from New York to San Francisco in a little over four hours, but it will take you another hour at each end to get to and from the super-airports that these planes require. On the other hand, helicopters need only the roof of a downtown building for landings and take-offs, but their forward speed is not much better than that of an express train.

Getting everyday convenience out of airplanes is going to require a new kind of plane—one that can rise vertically like a helicopter and yet keep pace with today's airliners. These bizarre-looking aircraft (pictures) now making their test flights may be the forerunners of this new breed.

• **Gliding Principle**—Since the Wright's first flight, man has really just been gliding off into the air; the lift needed to keep him up there is developed by pushing a set of kite-like wings through the air sufficiently fast.

And the faster and bigger airplanes became, the more inflexibly they were bound to airports, with their longer and longer runways needed to get them going fast enough so their wings would give them the lift required.

• **Rotating Wing**—One way designers got around this limitation in getting aircraft vertically into the air was to mount the wing on a hub and spin it fast, to build up lift while the ship remained stationary. This is today's helicopter.

Unfortunately, there are strict limits to a helicopter's speed—about 160 mph.

• **New Ideas**—Designers kept looking for the fast plane that would land and take off vertically, without relying on its wings. The new jet engines finally made the dream possible. They have 8 to 10 times as much thrust per pound as the older piston engines, providing the power both for lift and for fast forward speeds. Where propellers are used, they are driven by gas turbines.

The trick then is to put this power to work in VTOL (vertical take-off and landing) aircraft. As the pictures show, many different ways have been tried, including:

Convertiplane. This has both the

Ways to Fly Straight Up

wings and forward propeller of an airplane and the rotor of a helicopter. It takes off like a helicopter, then uses a propeller for horizontal flight, with the helicopter rotor spinning freely.

Tail-sitter. This is a jet (so far restricted to fighter types) so powerful that it can take off straight up. It lands by backing down the same way. Convair's propjet Pogo interceptor in 1954 was the first pure VTOL plane to fly, and Ryan's pure jet Vertijet is similar in type. Even if payload can be increased, its commercial value is questionable—passengers would balk at an awkward take-off and landing position.

Tilt-wing. This type takes off by tilting the propellers—and the wing, too, for practical reasons—to point at the sky and drive itself up, then tilts everything back to level position for horizontal flight.

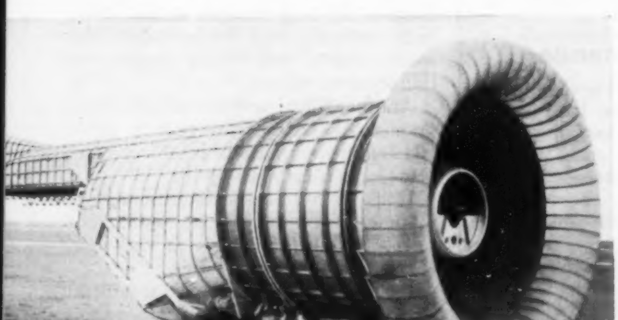
Ducted fan. This looks something like a tilt-wing, but it pivots only the ducted propellers at the wingtips—upward to give vertical lift or forward for horizontal flight. Installing the propellers in an aerodynamic duct increases their efficiency by about 25%.

Deflected slipstream. In this type, the propellers stay in the conventional position, but their air blast is deflected downward by oversized retractable flaps for vertical lift and for hovering. The flaps are retracted for forward flight. This type thus combines conventional wing lift with direct engine thrust.

Deflected thrust. Vertical lift is provided in this case by deflecting the jet's

PURE JET Bell X-14 uses deflected thrust of jet engine (with vanes built into engine exhaust) for vertical lift. It's ready for transition test, while . . .

. . . Ryan Vertijet interceptor has already proved itself. It sits on its tail on ground.



PURE FANS have no wings. This is a Lippisch Aerodyne, supported by deflected thrust, while . . .

. . . Piasecki's "airjeep" has two ducted fans to hold it up for low-level flight. Simpler Hiller Flying Platform has one fan.

thrust downward with the vanes.

Flying fans. This type and the next have no wings. Essentially, it's a flying ducted fan whose course is controlled by tilting the vehicle.

Flying tubes. This latest generation of VTOL vehicles are craft that are no more than powered tubes, supported and guided by deflected thrust.

• **Supreme Test**—Within the next few months—the next few days in some cases—aircraft embodying just about all of these VTOL concepts will be flying. The supreme test for some is the transition from vertical to horizontal flight and back again.

At some point in this transition, the VTOL craft ceases to be under control as a helicopter, yet hasn't picked up enough forward speed to be controlled as an airplane. Several VTOL types have demonstrated their ability to fly either horizontally or vertically, or both, and some have gone part way through the complete cycle.

Like the tail-sitting military interceptors, at least two convertiplanes have achieved full transition. These are McDonnell Aircraft Corp.'s XV-3 and Britain's Fairey Rotodyne transport, which is in limited production. Bell Aircraft Corp. has also developed a twin-rotor convertiplane whose rotors tilt over for horizontal pull, but it hasn't accomplished full transition. These convertiplanes lack the speed potential for a bright commercial future.

• **On Their Way**—Among the more promising group of VTOL craft, the closest to making its mid-air transition seems to be Bell's X-14, a twin-jet craft using deflected thrust. The X-14 has already taken off as an airplane (no vertical take-off), slowed down, and made a vertical descent. Any day now, it will try full transition.

Not far behind is Vertol Aircraft Corp.'s **tilt-wing propjet.** It has flown both vertically and horizontally. This week, flights will begin leading to transition in mid-air.

Another tilt-wing that's scheduled for preliminary testing this year is Hiller Helicopter's transport-sized propjet plane, weighing 132,000 lb.

Doak Aircraft Co.'s **ducted-fan** X-16 is undergoing ground tests, with flight tests scheduled for later in the year. It aims at 250 mph.

First of the **deflected-slipstream** VTOLs to be rolled out is Ryan Aeronautical Co.'s version, which is about to undergo full-scale wind tunnel tests. Others working on this type include Fairchild Engine & Airplane Corp. and Kaman Aircraft Corp.

Among the flying fans, Piasecki Aircraft Corp. expects this summer to test fly its first "airjeep," which uses two ducted fans. Its wheels are powered, too, so it can travel over the ground. Curtiss-Wright's Aerophysics Div. and Chrysler

Corp. are also building vehicles of this hybrid type. Hiller's Flying Platform has already flown successfully.

Two **flying-tube** types are being evaluated on the test stands for the first time: Dr. A. M. Lippisch's tube-like Aerodyne, which is supported by deflected thrust, and Piasecki's annular (doughnut-shaped) wing.

• **Power Plant Problem**—If these experimental VTOLs are to be translated into actual commercial or military aircraft, the greatest single need is for even more powerful jet engines developed specifically for VTOL use. Driving a plane straight up requires a tremendous amount of power—from 20% more in the case of a military interceptor to several times as much for planes in the transport class.

Oddly enough, in this interim stage at least, the outmoded propeller comes back in fashion again in VTOL designs. At low start-off speeds it accelerates a mass of air far more efficiently than a pure jet. That means a greater payload in VTOL transports and cargo carriers. But to get the needed ratio of horsepower to weight, it takes a gas turbine to drive the props. This explains the 50-year lapse between the Wright's first flight and the first flight of Convair's Pogo.

Ultimately, as the demand for still higher speeds is felt, VTOL-type jet engines will be worth developing. General Electric's and Pratt & Whitney's new jet bypass engines—which boost take off power by one-third and cut fuel consumption by 15% (BW—Apr. 12'58,p90)—are a step in the right direction, say VTOL enthusiasts.

• **Military Pioneering**—The aerodynamics involved in VTOL flight represent an advanced state of the art. And even if VTOL designs are never accepted commercially in toto, it's a safe bet that the concepts now being evolved on military contracts will appear to some degree in all future airliners.

George D. Ray, Bell's chief aircraft engineer, goes so far as to predict that all planes designed 15 years from now will be VTOL types. The trade is reasonably sure that Lockheed's newly announced 2,000 mph. jet airliner, on which it is starting next year (BW—May 24'58,p36), will have some VTOL characteristics. Hall L. Hibbard, Lockheed's vice-president for research and development, has long been talking of the need for VTOL design.

• **Half-Measures**—Naturally, not everybody is in agreement on how much vertical performance is necessary or economically feasible in an airliner. Arthur E. Raymond, engineering vice-president at Douglas Aircraft Co., for example, points out that vertical-rising capability is costly. A VTOL airliner would need 50% or more power.

Douglas engineers, and others in the

field, tend to show more warmth toward the short take-off and landing (STOL) type of aircraft. A "short" take-off is defined as the ability to clear a 50-ft. obstacle 500 ft. from the plane's starting point. Almost any VTOL design can operate as a short take-off plane, too. Short take-off planes, not requiring as much power, can carry an estimated 50%-60% more payload.

Backers of STOL, as opposed to VTOL, point out there aren't many potential airbases where a short take-off couldn't be made almost as well as a vertical one. Even helicopters, they contend, need a sizable cleared space. So they think it makes more sense to strive only for a plane that can get into the air in a couple of hundred feet, when a costlier and trickier VTOL aircraft couldn't do much more, anyway.

• **Ways to Use It**—Both military and commercial operators at times chafe under the restricted speed of helicopters, now the only aircraft that can be used where landings and take-offs must be made in limited space.

Even the supersonic intercontinental airliners would profit by adopting VTOL or STOL features, engineers say. One obvious gain would be to eliminate the need for extending two-mile runways to three miles to take care of these long-range planes. Difficulties in extending present airports have already led to talk of wholly new fields in remote areas, reaches from cities by aerial buses (helicopters or smaller planes).

But the more important gain would be to free designers to develop speed and efficiency in their planes, with no further need to consider landing speeds and the length of take-off.

Today's fast planes, though still flying below the speed of sound for the most part, pay a heavy penalty in weight and aerodynamic efficiency to get a relatively slow landing speed. Engineers must continually compromise between the demand for plenty of wing area for lift and the demand for the least possible wing area for high speed. The trouble is that wings with high lift offer the most drag.

• **Which Type?**—Supersonic airliners will probably be of the deflected-thrust or tilting-engine type, though Ryan has a 1965-model jet under study that would have ducted fans built into its wings for VTOL capability.

In the immediate future, the betting odds seem to favor either the ducted-fan or tilt-wing type of aircraft. The tilt-wing is favored for its simplicity, its lift of 5½ lb. per horsepower (good for a VTOL), and its fuel economy—the best per pound of thrust in the VTOL field. Others such as Doak Aircraft, which has spent 23 years and $300,000 in VTOL research, favor the ducted-fan type for their higher thrust and milder control problems during transition. **END**

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The Federal Reserve Looks at Itself

For almost three years, the Federal Reserve used all its powers, physical and moral, to fight inflation. Even after it had signaled a reversal of its tight money policy last November, its easing moves were so moderate that many observers aired the familiar charge that the money managers were, once again, "too little and too late."

While the Fed's timing is still open to dispute, the charge of "too little" is now no longer valid. Over the past seven months, there have been four cuts in the discount rate, three reductions in reserve requirements, and active open market operations which have made credit both cheaper and more readily available.

These moves demonstrated that the nation's central bankers are combating the current recession with as much vigor as they fought inflation in the previous boom. Even more important, they appear to be doing some fresh thinking on the role of monetary policy in our economy.

This new attitude is evident in a speech made last week by Alfred Hayes, president of New York's Fed bank. Refuting those who fear that the Fed's easy money policy is inviting inflation, he bluntly stated that "during recent months the immediate dangers of recession had come to outweigh the dangers of inflation, and still outweigh them." And though inflation may again be a threat, he explained that "it would have been inexcusable to let this consideration prevent our doing all we could do to combat the recession and provide an atmosphere of money and credit ease conducive to recovery."

Hayes does not think that a bottoming out of the recession should signal a return to restraint. As he sees it, "we cannot look with equanimity on current levels of unemployment or on the possibility of an increasing spread between actual output and the country's growing resources."

This provides a sharp contrast to central bank thinking last year, when inflation was pictured as the only enemy and the Fed as the only real defense.

In fact, Hayes reappraises the tight money period, the first lengthy experience with a restrictive monetary policy since the 1920s. In his opinion, the Fed's reliance on general credit controls helped moderate the boom, but he also makes clear that "specific imbalances" developed which the monetary managers were powerless to combat. He feels, for instance, that monetary policy might have been more effective if the Fed had "more selective controls, especially in the area of consumer credit."

This is the first admission by a top central banker that general credit controls leave something to be desired. Allan Sproul, Hayes' predecessor at the New York bank, had fought for authority over both mortgage and consumer credit, but the Fed in Washington put its faith solely on general controls and undertook an exhaustive—and expensive—study of consumer credit to prove that there was no need for specific controls.

Now Hayes has reopened the debate, a debate that should lead to a thorough review of the objectives and weapons of central banking. Central banking, after all, cannot be static, but must be constantly evolving to keep pace with the changes in our financial structure.

Our experience with the policy of restraint revealed that some areas of the economy were notoriously insensitive to general controls and that timing was often faulty. These weaknesses should be repaired. We hope that the Fed undertakes a complete review of its performance, so that when we are again faced with an inflationary upsurge, the central bank will be better prepared and equipped to do its job.

The Tariff Fight

The fight over the Administration's bill to extend the Reciprocal Trade Act for another five years beyond June 30 is not—as all the fuss and feathers from protectionists appears to imply—over whether tariffs should be reduced. The real issue is whether U. S. tariffs will be held about where they are or raised. Indeed, the Administration's own bill would empower the President to boost tariffs, under the escape clauses, to 50% above the sky-high Hawley-Smoot rates of the early 1930s.

Despite this and other concessions in the bill, the protectionists are outraged because the bill would continue the President's power to reject Tariff Commission recommendations for an increase—even though the bill now would permit Congress to override the President by a two-thirds vote.

At this point there are no more concessions the Administration can make. It is absolutely essential for the President to have the power to hold the line on tariffs if he decides that boosting rates would adversely affect U. S. consumers, workers, investors, taxpayers—or, most importantly, the nation's ability to defend itself by obtaining and holding allies.

The trade bill is crucial as a defensive measure in a year when some short-sighted groups would like to have the U. S. follow "beggar-thy-neighbor" policies—neighbors who will either turn against us with higher tariff walls of their own, or turn to the Soviet Union as a means of saving their economies.

Among the ideas that Pres. Eisenhower recently nominated for oblivion was "the notion that we can export without importing." If that lesson doesn't sink home the free world itself may be nominated for oblivion. Indeed, Comrade Khrushchev has already so moved.

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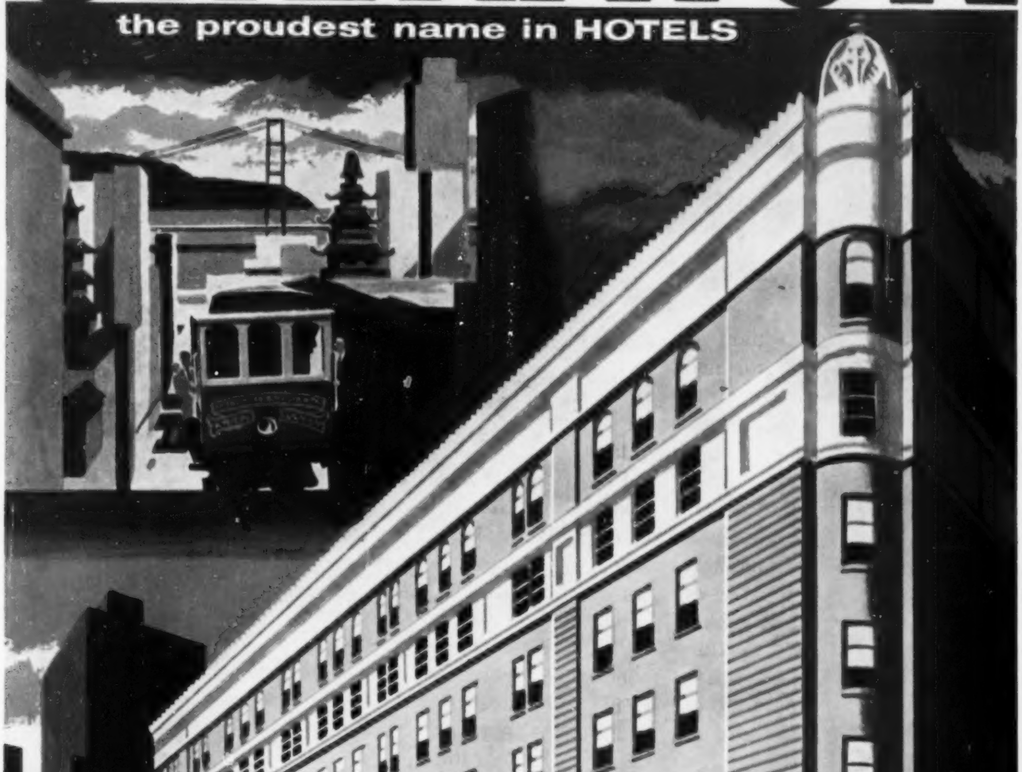

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